THE FREEMAN

IDEAS ON LIBERTY

Cuba: Misery and Hope

Teaching Business Ethics in an Environment of Mistrust

Public Interest Is Usually Special Interest

AUGUST 1991

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IDEAS ON LIBERTY

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IDEAS ON LIBERTY

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PERSPECTIVE

Legacy

What kind of world will we leave to our children?

Will they be burdened with our debts? With interest on the national debt becoming the major part of Federal spending, with unfunded Social Security obligations soaring into the trillions of dollars, with "off-budget" Federally insured loans piling on trillions of dollars in more debt, one wonders how they ever will pay it off.

Will their environment be spoiled by our pollution? Will their air be fit to breathe and their water fit to drink? Will their land be poisoned by toxic wastes?

And what about the problems children face right now? How will crime and drugs in our public schools affect them in future years?

These are, indeed, serious concerns. Yet our greatest failure—and our greatest hope—may be in the values we teach our children.

Are we teaching them thrift and honesty when we incur debts we have no hope of repaying? Are we wise to excuse criminal behavior as merely a "sickness"? Are we helping our children to control their own behavior when we say that a drug addict "can't help it"? Are we showing them how to become responsible adults when time and again we turn to the government to "solve" personal, family, and community problems, with little concern for the rights or property of others?

Our personal and family values may seem inconsequential compared with the problems the world will face. Yet they hold the solution.

—BRIAN SUMMERS

Statecraft and Soulcraft

The true problem with humanity is that far too many of us suffer from inadequate moral enlightenment. Many people simply don't sufficiently cultivate the gardens of their souls—not necessarily because they are evil; they may simply be engrossed in other things, or not realize the importance of soulcraft. Consequently, religion and morality are often not the governors of conduct that they should be. Indeed freedom is always at risk precisely because the moral worthiness of

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freedom and free enterprise are inadequately grasped by too many.

Characteristically standing this truth on its head, statists often maintain that people are too selfish, depraved, and morally unenlightened to be trusted with freedom. *But the state itself is operated by those selfsame flawed and unenlightened people.* When we start with benighted people and add an activist state, all we get is an actively intervening state staffed with benighted people—hardly an improvement. And because morally ignorant and backsliding people now have the state's power at their disposal, and deploy it to gain their ends, it stands to reason that we will be worse off; government action will be inadequate in its conception, clumsy or tyrannical in its execution, and harmful in its effects. If anarchy is not safe for imperfect, corruptible, unenlightened people, neither is any form of government beyond the minimal state envisioned by the Founding Fathers.

And if people were not flawed and unenlightened? Then, proponents of statism might argue, there would be no need for a welfare state. But neither, friends of freedom would rebut, would they *want* one. The desire to coerce, or enlist the government to coerce, your neighbors, competitors, or other fellow citizens on your behalf is *itself* morally flawed, indeed one of the best proofs of insufficient moral awareness.

—JOHN ATTARIAN
Ann Arbor, Michigan

Promoting Inefficiency

Increased government intervention in the economy can change the efficiency of private business—and universities and hospitals, and other nonprofit institutions as well—by changing the kinds of people who survive the Darwinian struggle to reach the top. The executive who knows how to get the most bang for the buck may not be the one who ends up in charge, if what is really needed is someone who can keep Congress from taxing those bucks away or from draining them off by imposing new regulatory restrictions or ancillary obligations for environmental or other purposes.

In short, not only does government itself often operate inefficiently; it can also make businesses less efficient by creating an environment that disadvantages those businessmen whose primary—or sole—talents are in promoting efficiency.

—THOMAS SOWELL, writing in the
May 27, 1991, issue of *Forbes*

Church and State

When the church becomes so closely identified with the state, how will the church be viewed when the state in turn becomes oppressive? Ask the people in Romania or the Soviet Union. A close proximity of church to state compromises the church's ability to critique the state. . . .

The nature of any state is coercive. For the church to avoid repeating past mistakes she will have to resist the age-old temptation of becoming closely identified with the means of coercion.

—ROBERT A. SIRICO, CSP,
writing in the January/February 1991
issue of *Religion and Liberty*

Choices and Consequences

Every choice we make has consequences for us. We must bear the burdens of our choices. If our choices are irresponsible we suffer the consequences and learn from them. We change our choices by reforming. We reform ourselves each day in small ways that in most people eliminates the need for drastic change. Governmental institutions, on the other hand, freeze decisions and make incremental reforms almost impossible. This creates the demand for drastic results. Removing more decisions from governmental institutions will make it possible to achieve necessary reforms in an easy rather than difficult manner. The natural relationship between freedom and morality, then, can be restored to its appropriate harmony.

—LEONARD P. LIGGIO, writing in the
October 1990 issue of *Chronicles*

Human Nature

It's in people's nature that if something is theirs, it's theirs, and a person works with a totally different mindset if he has property.

—NATALIYA YEROMEEVA, a private shopkeeper
in Leningrad, quoted in the April 23, 1991,
Wall Street Journal

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THE FREEMAN
IDEAS ON LIBERTY

Beating the System: Soviet Entrepreneurs Work on the Wild Side

by Sheila Melvin

Boris Yeltsin, president of the Russian Republic, discussed the problem of entrepreneurship in the Soviet Union in a recent televised interview with Barbara Walters. "Entrepreneurs," he said, "are few and far between in this country, but we have adopted laws on entrepreneurship." He went on to disclose that the Soviet government intends to send 50 managers to the United States, Great Britain, and Japan to be "trained" in entrepreneurial skills. The specially selected trainees are "people of 30 to 35 years of age, talented people, with university diplomas. They don't know what business is, what entrepreneurship is, what a market is, but they are prepared to learn."

Entrepreneurs in the U.S.S.R. aren't so few and far between as Mr. Yeltsin believes. Quite the contrary, Mr. Yeltsin's own republic is teeming with people who know exactly "what business is, what entrepreneurship is, what a market is." As I discovered last autumn, from the U.S.S.R.'s borders with Mongolia to the streets outside the Kremlin, Soviet entrepreneurs are carving niches for themselves in the wreckage of their nation's economy.

Young, English-speaking, risk-taking, persuasive, amiable, and tireless, these entrepreneurs possess all the skills necessary to be successful. But because they live in a nation in which free enterprise is called "speculation" and the simplest of capitalistic ventures is illegal, they must channel their abilities into the black market, the only viable market the Soviet Union has, and bear the label "black marketeer."

Sheila Melvin is a free-lance writer based in Washington, D.C.

The Trans-Siberian Bazaar

"Soviet Army watches—you buy?" inquired the young Russian who appeared at the door of my compartment on the Trans-Siberian Express as it passed through Siberia on its weekly run from Beijing to Moscow. Invited in, he sat down, pulled out his watches, and began his sales pitch. After selling three army watches (all with Yuri Gagarin watch bands), one Soviet-American Friendship, and two Russian Independence timepieces, he moved on to the next compartment $40 dollars richer.

The young man was just the first in a stream of entrepreneurs who tramped from car to car over the next three days with the persistence and cheer of "Avon ladies." Women with wicker baskets slung over their arms did a brisk business in vodka, despite the fact that it is officially banned on all trains. Money changers exchanged rubles for dollars at three to four times the official tourist rate. Caviar vendors sold tins of beluga for $8. Smiling teenagers sold Lenin badges for a dollar apiece.

Outnumbering entrepreneurs with things to sell were those with empty canvas bags and pocketfuls

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of rubles who walked the train looking for things to buy. While the vendors concentrated on the smattering of Western tourists aboard the train, the buyers saved their energies for the Chinese passengers, who had come forearmed with the knowledge that the Soviet Union was a seller's market. And when the Chinese and the Soviets, citizens of the two biggest Communist countries on earth, got down to business, the result was a capitalist free-for-all.

Selling everything from sorghum liquor to candy to clothing, the Chinese raked in rubles and racked up profits. An elderly scientist on his way to a conference in Berlin literally sold the shoes off his feet. A young teacher sold cartons of instant noodle soup and chewing gum at a 1,000 percent profit. Business was transacted openly, and whenever there was a lull, the Chinese passengers compared profits. "How much have you earned so far?" a famous pianist on her way to perform in Budapest asked me over breakfast. When I confessed to earning nothing, she laughed and said that she had made nearly 150 rubles. (The Chinese didn't always have the last laugh. One Beijing economist sold a jacket at what he thought was a great profit only to discover, too late, that he had been paid in Yugoslavian dinars, rather than rubles.)

On-train entrepreneurs, particularly those who purchased goods, faced stiff competition at station stops when scores of ordinary Soviet citizens with rubles to spend, but nothing in their cities to buy, came to meet the Trans-Siberian. Capitalists not by profession, but out of desperation, these people thronged around Chinese and Western passengers alike, waving rubles and echoing the sad refrain, "Cigarettes? American dollars? Vodka?"

At Sverdlovsk, the heart of the U.S.S.R.'s military-industrial complex, our train was held up for 20 minutes while hundreds of passengers from a Soviet train crawled underneath it to get to the platform. Reaching the platform, they flocked to the windows of the Trans-Siberian, pleading with all of us on board to sell our clothes, our jewelry, our food. Spotting a good business opportunity, several of the Chinese leaned out the windows and began auctioning off their food and liquor supplies. A Western woman, misinterpreting the situation, threw a box of cookies to the crowd and then indicated that she didn't want money. The Russian woman who caught the box thrust it back angrily; she wasn't asking for charity, only for the opportunity to spend her rubles. (Ironically, it was the hostile reception given Mikhail Gorbachev on a visit to Sverdlovsk last year that convinced him an immediate, Polish-style conversion to a market economy would be untenable in the U.S.S.R.)

The author outside a church in a tiny Siberian town during one of the Trans-Siberian's 15-minute stops.

Somewhere in the Ural Mountains, the food service staff, the only Soviet workers on the Chinese-owned train, locked up the dining car and began to moonlight. "I am interested in buying shirts," the waiter told me. "Not new, but in good condition. I also have caviar for sale." The waitress sold army watches and, at one stop, the Russian cooks jumped off the train clutching empty potato sacks, ran into the platform shop and bought out its entire stock of matches for resale in Moscow, where there was said to be a shortage.

Looking on, the Chinese conductor in my car smiled ruefully. He didn't engage in this type of business, he told me, but it wasn't easy to avoid. At one stop, a Soviet conductor from another train had asked to buy his flashlight. When he declined to sell it, the Soviet conductor had tried to convince him to sell his socks.

Ivan, Inc.

I got off the train at Moscow's Yaroslavsky Station, along with a dozen other Westerners, to find a young, red-haired Russian wearing Levi's and a leather jacket waiting for me, as it were. Taking a

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drag on his Marlboro, he addressed us, "Hey guys—my name's Ivan. I've gotta place for you to stay. Wanna hear about it?"

I most definitely did. Like the others, I didn't speak a word of Russian, I had no place to stay and, since the visa clipped into my passport was for transit only, I wasn't supposed to do anything in Moscow except change trains, which meant that no hotel would accept me.

Ivan made his offer in a fluent hodgepodge of British and American slang. "O.K.—it's your own flat in downtown Moscow just three Metro stops from Red Square. You'll each have a bed, there's a shower, a loo [toilet], and a kitchen, and I'll help you get tickets outta here. Ten U.S. dollars each." Sensing our collective hesitation, he added, "I think this is the best deal you're gonna get. This country's [expletive] socialist, you know."

Not even the wheeling and dealing aboard the Trans-Siberian had prepared me for this welcome to the capital of the Soviet Union. Joining the others, I bargained Ivan down to $7 a night and then followed him, on foot, to the flat.

The apartment Ivan led us to was a three-room flat in a government-subsidized compound inhabited by diplomats from socialist countries. Cuban children played in the dingy entrance, and the smell of Oriental cooking wafted through the trash-cluttered stairwell. Ivan had arranged to rent the flat from a Vietnamese diplomat home on leave; it was just one of five downtown apartments he used to accommodate foreign visitors.

Andrei and Konstantin, Ivan's business partners and friends, were waiting to greet us and to offer any assistance we might need. With Ivan, they made it a point to emphasize that they weren't just renting us an apartment—they were providing us with a service from which all concerned would benefit. Those who wished to leave for Europe at once would be taken to Intourist, the monopolistic Soviet travel agency, that afternoon; for those who wished to stay, there would be assistance in getting visa extensions, opportunities to see the ballet and the circus, shopping trips, and guided tours of Moscow. I decided to stay.

Lenin's Legacy

Just prior to embarking on a tour of Ivan's Moscow, I took in the sights at Red Square, including Lenin's Mausoleum and the deserted Lenin Museum, with some Europeans from the train. At the museum, the guide, an ardent and vocal Communist, led us past the remnants of Lenin's life, pausing longest at a copy of his work, *Imperialism: The Highest Stage of Capitalism.*

"Excellent book," he said, pointing at the copy in the glass case. "Have you read it?"

None of us had.

"No? Really? None of you?" he asked with genuine surprise. "You really ought to read it—it will give you great insight into why capitalism is bound to failure and socialism certain to succeed."

My jaw dropped visibly as images of my first 24 hours in Moscow collided with the guide's words: the college students in Alexander Park covertly selling hand-painted "I Am a K.G.B. Agent" tee shirts in exchange for hard currency; the policeman who tried to fine me five dollars, rather than rubles, when he caught me jaywalking to get to Pizza Hut; the dissidents living in cardboard boxes outside the Hotel Rossiya who had given up their homes and jobs in order to embarrass the Kremlin into addressing their grievances; the speculators who lingered outside the Army Department Store offering to sell Westerners a complete Red Army officer's uniform, including leather dress boots and vintage gas mask, in exchange for dollars or Levi's; the endless rows of empty shelves in GUM, the U.S.S.R.'s largest department store, and the equally endless lines of consumers queued up to buy soap, which had been unavailable for weeks; the clerk at GUM who had required me to show my passport in order to buy a cheap wool scarf because goods were so scarce in the Soviet capital that only Muscovites and foreigners were allowed to purchase many items.

"Capitalism bound to failure," I repeated. "What about now? There is nothing on the shelves of your stores, and your government and your people are struggling to adopt capitalist methods as fast as possible."

"Now? Now? Now we must not be dogmatic. Strict dogmatism is a great evil."

"The Dungeon"

The first stop on Ivan's tour was "the dirtiest bar in Moscow." Called "The Dungeon," the bar was located in the basement of a building several blocks from the Hotel Metropole. At 3:00 on a rainy Tuesday afternoon, more than 50 people

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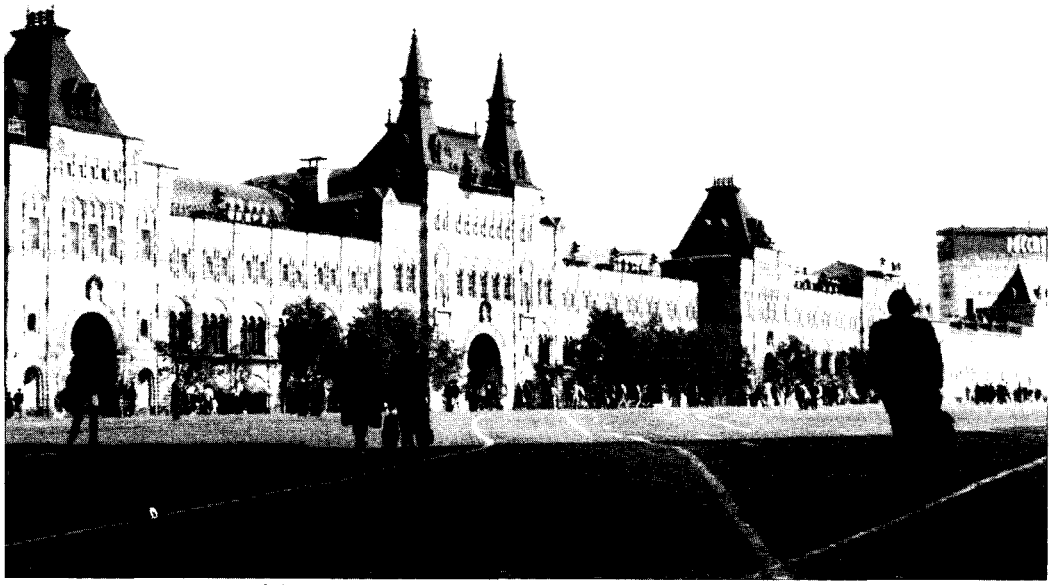

COURTESY OF SHEILA MELVIN

GUM, the fabulous—and fabulously empty—department store on Red Square.

were waiting to get inside. Appearing from nowhere, Konstantin and Andrei walked to the front of the line and bribed the bouncer. A moment later, we were all ushered inside.

Aptly named, "The Dungeon" was dim and dank. Beneath a vaulted ceiling, painted with flowers, the working class, mostly male clientele stood at high tables drinking beer, eating caviar and chicken, and smoking incessantly. Ivan, Konstantin, and Andrei bought plates of food for everyone and, as with anything that could be purchased with rubles, paid for it out of their own pockets; to them, the ruble was so worthless it was almost a form of play money. Having arranged for us to share a table with an inebriated man who looked like a professional wrestler, Ivan gathered up empty beer mugs, washed them in the men's room, and led us to the self-serve beer machines that lined one wall. Forty kopecks bought a mug of the scarce commodity.

Sipping the warm, flat beer, I stared at a legless man passed out under the next table. Ivan explained that the man was a veteran of the Afghan War, and then proceeded to tell the story of how his own best friend was killed at the age of 18 while driving a truck over a mountain pass in Afghanistan. "Afghanistan was our Vietnam," he concluded with tears in his eyes. "It was [expletive] pointless." We left "The Dungeon" when two drunk men began pounding an even drunker man's head into the beer machines.

Ivan's next point of interest was a record store where albums cost the ruble equivalent of 11 cents and compact discs cost a dollar. Cassette tapes weren't sold in the store and could only be purchased on the black market from speculators. Like most of his peers, Ivan, a heavy-metal fan, owned a cassette player.

On the Arbat, Moscow's beautiful shopping esplanade, we saw artists who sold cartoons depicting perestroika as a toilet floating out to sea and speakers who drew large crowds by openly decrying Gorbachev. Craft vendors peddled post-glasnost versions of Matryoshka dolls in which the biggest doll was painted to look like Gorbachev. Inside the Gorbachev doll were Brezhnev, Khrushchev, Stalin, Lenin, and, finally, a tiny doll representing "the Communist idea." But, because it is illegal to show disrespect for the President, the vendors kept the outer doll depicting Gorbachev hidden away, bringing it out only when approached by potential customers.

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Our tour was to conclude with a traditional Russian banquet at the Hotel Rossiya. After we had met up with the 10 other Westerners who were his guests, Ivan made several phone calls to his connections in the Rossiya, the world's biggest hotel, and then led us around to the back of the building. There an employee with a bunch of keys was waiting to escort us through the locked doors, meandering corridors, and dark staircases that led into a medieval-style banquet hall.

Entering the hall, we sat down at a groaning board lit by candles in pewter holders and laden with caviar, smoked salmon, cold meats, champagne, vodka, and Pepsi. Every time a plate or a bottle was emptied, it was whisked away and replaced. Gypsy dancers whirled across the floor strumming guitars and singing folk songs. Even paying guests at the Rossiya have been known to have trouble getting a meal—Ivan's connections, and five dollars each, had purchased us a feast fit for a czar.

Beating the System

Ivan, Konstantin, and Andrei were at first reluctant to explain how they built and maintained their highly profitable, extremely visible, but completely illegal business. But over the course of the week, they let me in on some of their secrets.

The founder of the business was a fourth friend, Andrew, already semi-retired, who had hit on the idea of meeting travelers from China at the train station and inviting them to stay in his dorm room for a few dollars. As demand for rooms increased, so did competition, and by the time Ivan got involved, more than a dozen other Muscovites were meeting the trains from China and offering travelers places to stay. "But," Ivan explained, "we were the best. The foreigners all began to stay with us because they heard of us from their friends, and now we are the only ones in this business."

Once assured of a steady customer base, Ivan and his partners began to expand the services they offered and to raise the price they charged each traveler. As with capitalist ventures anywhere, the continued success of the business depended on its founders' competence and ambition, ability to make and keep good business connections, and willingness to take risks; the fact that Ivan, Konstantin, and Andrei were running a capitalist enterprise in a Communist country only magnified the importance of each of these qualities.

Ivan, Konstantin, and Andrei whose ages ranged between 19 and 24, had the competence and the confidence of people much older. Each had his specialty—Andrei specialized in visa extensions, Konstantin in getting tickets, and Ivan in gaining entrance to restaurants—but was also quite capable of handling any aspect of the business, should the need arise. Their ambitions were simple and strong: to supply themselves, their parents, and their siblings with everyday necessities and luxuries such as food, clothing, make-up, and music, and to save enough money to travel together to West Germany for a working vacation.

Support of their business undertakings wasn't always forthcoming at home. Ivan's mother, an economist, knew what he did for a living and tacitly approved, but he didn't dare tell his father. Konstantin's parents were "traditional" and feared that he would get into serious trouble. His mother often cried and yelled, Konstantin confessed, and he didn't like to go home. Andrei didn't tell his parents about his role in the business so "they wouldn't worry too much"; they thought he spent all his spare time studying.

Connections are the cornerstone of the ordinary Soviet consumer's life and the foundation of a Soviet entrepreneur's business. The apartments used by Ivan and his partners came from low-level socialist diplomats, old friends, and university students. Eight-dollar tickets for us to see the sold-out Kirov Ballet performance at the Bolshoi Theater on half an hour's notice came from scalper friends outside the theater. Five bunches of Chiquita bananas which we came home to one night—an unheard-of luxury in Moscow—were courtesy of Cuban diplomat friends. Ten-dollar train tickets from Moscow to London, paid for in rubles, were obtained by slipping a pair of Chinese pantyhose and some rice wine to a friend of Ivan's mother who worked at Intourist. Cases of champagne and cognac were purchased from speculators. Entry to restaurants whose doors were locked to the general public was gained by knowing the secret knock and having the right Mafia friends. (Ivan swore that organized crime—what he called the Russian Mafia—controlled almost every restaurant in Moscow.) McDonald's hamburgers were bought not by standing in the five-hour line, but by placing a take-out order in advance with friends who worked there.

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Waiting at a bus stop one day, Andrei unintentionally demonstrated how spinning an extensive web of connections had become second nature to him when a woman vending fruit asked for help putting up her umbrella. The umbrella, which covered her entire stand, was heavy and in need of oiling, and it took Andrei several minutes to get it up. When he had finished, the woman thanked him peremptorily and Andrei returned to the bus stop and lit a cigarette. Seeing the cigarette (Muscovites are limited by rationing to five packs of cigarettes per month), the woman called out to him again, asking first for a cigarette and then for a light, both of which he gave her. Laughing, I asked Andrei if he didn't consider the woman's behavior to be somewhat rude. He shrugged and replied, "Good connection. She will remember me and she will sell me fruit someday when there is nothing in the stores to buy."

All entrepreneurs run risks, but by taking in foreigners without permission and dealing in dollars, both illegal activities, Ivan, Andrei, and Konstantin ran particularly great ones. Exactly how great became evident one night when they took a newly arrived group of Europeans to the banquet at the Hotel Rossiya. Dinner over, they exited through the main lobby where they were confronted by police who insisted on searching them. All three balked, the police roughed them up, and they were taken away. The next day, they all had black eyes and swollen faces. The police had found over $200 on them and kept it all. When I asked why they had been treated thus, Ivan responded, "Because we took foreigners to a restaurant." Andrei's explanation was, "Because the police knew we were working and that we have more money than they do."

Even the Weather Is Worse

Ivan, Andrei, and Konstantin picked their way expertly around the rubble of the Soviet economy and prospered in the process. But each bitterly resented the economic shambles to which Russia had been reduced.

Ivan blamed the Communist system in general and Gorbachev in particular for the destruction of the economy. No string of expletives was long enough to express his disdain for the Soviet leader. It rained every day I was in Moscow, and when I asked Ivan if the weather was always so bad, he replied, "Only for the past five years," a direct reference to Gorbachev's term in office.

Andrei offered a more sophisticated explanation of the U.S.S.R.'s economic woes, but he, too, blamed Gorbachev. "Five years ago there were goods on the shelves," he said. "Even if they were expensive, they were there. Now there are no goods, there isn't even enough bread! Gorbachev has done nothing." Andrei believed that the root of the problem lay in profiteering. "The problem," he explained with controlled rage in his voice, "is officials. Not high officials, but middle officials, all around the country. They control where the bread, the products, will go, and they keep them and don't let the people buy them. They keep them until the people are ready to jump up and riot and then they release them, but for more money which they put in their pockets. It is all the fault of the officials. So we must go to speculators—everything we must buy from speculators. Or else we stand in line—always stand in line."

The happiest I saw Ivan was one afternoon when he returned from a shop with a set of table tennis paddles. "Look!" he exclaimed, "Ping-Pong paddles! They're from Vietnam—the best you can buy—and I didn't even get them from a speculator. I got them in a regular store, on a shelf!"

Their Own Backyard

Mr. Yeltsin is aware that the salvaging of the Soviet economy is going to require people who "know what business is, what entrepreneurship is, what a market is." But if he would look in his own backyard and see the self-made entrepreneurs already operating in it, he might realize that entrepreneurship isn't so alien to Soviet soil as he thinks it is. And if he would like to meet three home-grown Russian entrepreneurs, I'd be more than happy to put him in touch with Ivan, Konstantin, and Andrei. □

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Cuba: Misery and Hope

by Jorge Amador

It arrived in January as the Gulf War opened, and it read like a dispatch from Baghdad or Kuwait: "The situation here is desperate. There is no food, or water, or electricity." But it wasn't a press account from a place ravaged by bombing or military occupation. It was a letter from an ordinary citizen, writing about Cuba into its fourth decade of socialism.

Cuba's economic plight is hardly news. A cursory glance at United Nations historical statistics shows how a once up-and-coming developing nation has slowly sunk into the bottom half of Third World economies. But somehow the parade of grim statistics never really hit home until a series of letters and personal interviews with relatives in recent months added a human dimension to the cold numbers. These are not the rantings of embittered exiles, but the firsthand accounts of men and women who grew up in Fidel Castro's Cuba.

I met my aunt Josefina in November, when she came to the United States with my grandmother for a three-week visit. She last saw me when I was still a toddler in 1961. She belongs to the generation of idealistic youth who helped put Castro in power in 1959.

What do you talk about with a relative you've never met before? As a nephew and a journalist, I was bound to ask, "What are things like over there?"

"We're going back to the 19th century," was her short reply. Josefina confirms press reports that horse-drawn carriages are replacing delivery trucks in Havana. The government recently issued bicycles for urban workers to get to work, and put in an order for thousands of oxcarts to replace tractors in the countryside.

Electricity is strictly rationed in Cuba, she says, enforced by scheduled and unscheduled power outages. Those who spend more than their monthly electricity allowance get their power shut off for three days a month. Twenty-five-watt bulbs are the rage in Havana. Depending on their location, homes in the city have running water for a few hours every second, third, or fourth day. Josefina should know: she's employed in the waterworks.

For years the Cuban economy was kept barely afloat by Soviet subsidies, but recently it has foundered as formerly Communist countries in Eastern Europe have started demanding hard currency, not worthless rubles or Cuban pesos, in exchange for their goods. The sharp rise in crude oil prices following the Iraqi invasion of Kuwait made things suddenly much worse. Cuban dictator Fidel Castro was quick to blame everything on the price of oil, but the economy continued to deteriorate even after Desert Storm started and oil prices returned to pre-invasion levels.

Consumer Hell

In response to the growing crisis, Castro has decreed a "special period of austerity" reminiscent of wartime economies. Rationing has been in place for most consumer goods since the 1960s, but now everything is strictly rationed, and buying one rationed item forfeits the right to obtain something else until the next ration book arrives.

Jorge Amador is editor of The Pragmatist, *a current-affairs commentary. The names of private individuals in Cuba have been changed for their protection.*

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REUTERS/BETTMANN

Empty store shelves: Cubans have plenty of money but little opportunity to buy.

"Things are very difficult here," writes another aunt, Rosa. "To give you an idea, it was my turn to shop on Friday. If I bought a refill for my pen, I would lose the right to buy perfume. . . . Absolutely everything is [bought] by the ration book."

"I am a *Fidelista*, but not a *comunista*," declares my grandmother defensively over this kind of dinner talk. She admires Castro's carefully cultivated image as the dynamic Maximum Leader.

"That's because you stay home all the time, and I'm the one who has to stand in line for hours to do the shopping," retorts my aunt Josefina. "You just see what they put on television. If you went out more often, you'd realize how bad things really are."

As in other centrally planned economies, Cubans have plenty of money, but little to buy with it. Socialist labor bosses can boast that the system has given workers unprecedented levels of income, but shoppers begin lining up in the wee hours of the morning before the stores open to make sure they get in before the goods run out.

Predictably, the preponderance of buyers over sellers has resulted in minimal levels of quality and service. "Let me explain to you how it is here so you understand," writes my cousin Lidia. "You take a roll of film to be developed. Three or four months later—if you're lucky—you get back maybe half the pictures you took. You go through the negatives and find undeveloped photos, but there's nothing you can do about it; you can't go and complain. And forget about getting extra copies of your prettiest pictures: it's impossible."

Unlike a "seller's market" in a free economy, however, entrepreneurs cannot enter the market to provide the relief of competition. Nobody else is allowed to fill the people's needs, and the sellers themselves derive no profit from their endeavors, so they lack the incentive to increase their own production. The result is not a seller's paradise, but sheer hell for consumers.

"Stone Age Man" in Manhattan

My cousin Domingo, 38, left Cuba for good with his two sons late in January. He was eager to tell me about Cuba, and to offer his first impressions of the United States. "Coming to the United States from Cuba is like putting a man from the Stone Age smack in the middle of New York City," he said to me. "The differences are that great. Here you have everything; over there, we had nothing."

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WASHINGTON POST WRITERS GROUP

Unlike Josefina, Domingo lived in the countryside. I probed him for information about rural Cuba. Whatever became of the farmers' free markets that Castro allowed for a few years in the mid-1980s? Didn't they help to ease the shortages of food staples?

"They were relatively expensive," replied my cousin, "but you could get things you couldn't find in the state stores. Fidel closed down the farmers' free markets because, as he put it, they were 'exploiting the people,' selling rice at 1.30 pesos a pound. So then he set up these state-run, so-called 'parallel markets'—and they sold the same rice at 1.50 pesos a pound." Now even the parallel markets are closed, since there's nothing to sell.

Whatever the economy's material failings, apologists for Cuban socialism are quick to point out that Cubans now possess "dignity," an intangible commodity we are said to have lacked before Castro. Whether or not Cubans had dignity before, Domingo would disagree that they have it today. "What hurts the most," he says about conditions in Cuba, "is the discrimination against Cubans by the government itself."

The Cuban government, he explains, runs stores where only people with hard currency (e.g., U.S. dollars) are allowed to shop. Since Cubans aren't allowed to possess foreign currency, only foreigners are admitted into the stores. The hard-currency shops offer a wide variety of goods not available to the average Cuban, who has to ask visitors to go in and buy things for him.

"There are restaurants where anybody can sit down to eat, but there are two sets of menus—one for foreigners and another one for Cubans," says Domingo. "You can sit at the same table and not be allowed to order the same things, unless the customer with the hard currency offers to pay for your meal."

Cracks in the Monolith

Because the regime quickly swoops down on displays of public dissent, Cuba presents an outward image of undisturbed harmony. But clearly there is widespread private disenchantment with the socialist system. One relative reports the results of an informal poll she took at her office in Havana: 75 percent said they are against the government, 10 percent are in favor, and the rest declined to say. The fact that she felt safe enough in her surroundings to undertake such a project is itself revealing.

During my interview with Domingo I turned to his sons and asked what young people think of Castro. Aren't they indoctrinated in socialism from Day One?

"Yes, but nobody believes it," said Andrés, age

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19. "Whenever Fidel goes on TV we say, 'The heck with him,' and go out and party." After 32 years, the state's efforts to imbue youth with socialist ideology can't compete with the hard evidence of its failure all around them.

His brother Ián, 8, played with a remote-controlled toy fire truck. But misery had made him wise beyond his years. Ián took me on a tour of his grandfather's home in Connecticut, which the family was leaving for sunnier skies in Florida. Strewn all over the house was the debris of moving preparations.

Ián led me to the garage. He walked me around a pile of items to be discarded before the move: a wooden wine-bottle box, a rack full of dusty cups and glasses, some old tools, dirty clothes. "Here [in the United States] you consider all of this trash, junk to be thrown out." He picked up the wooden box by the handle. "But in Cuba we would save all these things. When you're poor you have to make do with what you have."

In the face of crushing poverty and stifled formal speech, Cubans have turned to humor for relief. Cuban jokes about features of daily life, from rationing to Castro's personality cult, serve to express popular feelings about the socialist "revolution" and its Maximum Leader.

In a recent compilation of Cuban political humor (*Chistes: Political Humor in Cuba* [Washington: The Cuban American National Foundation, 1989]), Luis Aguilar, a professor of history at Georgetown University, includes one about Sherlock Holmes, the master of logical deduction. Walking the streets of Havana with Dr. Watson, Holmes stops to watch a man wiping his brow with a handkerchief and walking briskly past them.

"Watson, do you see that man who has just passed us? Well, he doesn't have any underwear."

Watson couldn't believe his ears about Holmes's statement and asked the man in question if it was true. Upon hearing his affirmative reply, Watson inquired from Holmes how he had reached such a conclusion.

"Elementary, Watson, elementary. In this country, he who spends his ration coupon on a handkerchief forfeits his right to underwear!"

The cracks in the Cuban monolith are slowly growing. Listening to Radio Martí or TV Martí, the U.S.-sponsored services broadcasting into Cuba, is a punishable offense. Nevertheless, Radio Martí is the most popular station in Cuba. "When Radio Martí comes on, the streets are emptied," says Domingo. "Everybody plays it real low so nobody can hear you listening to it from the other side of the wall."

TV Martí has been jammed by the Cuban government since it first came on the air, but that may change soon. "The jamming signal is transmitted from a helicopter," claims Josefina, half seriously. "We're all waiting for the helicopter's fuel to run out so we can watch TV Martí uninterrupted."

But what about those great rallies we see on television, where everyone cheers Fidel's every word? "People go because they get off from work that day," explains Domingo. "It's like a holiday. But if you don't show up for the rally or don't cheer, you're suspect."

And what of those infamous "Committees for the Defense of the Revolution," the busybody block committees that are supposed to keep tabs on the people's political correctness? Josefina is the vice chair of her block committee. Participating in the CDRs is a matter of survival, not ideological commitment.

So how soon can we hope for change in Cuba? Domingo was pessimistic. "The problem is that everybody complains in private, but nobody is brave enough to be the first to go out on the street and start a revolution. They'll shoot you."

Politically, Cuba today appears to be in what we might describe as a pre-revolutionary high simmer: it could boil over at any time. There is general discontent, but as yet no widespread opposition movement to give it direction. Crackdowns on formal dissent have made it more difficult to organize the opposition, but as the example of Romania suggests, organized opposition may not be necessary.

"You know," I told Domingo, "in Romania they had a big rally for the Communist dictator Ceausescu, and the crowd started booing when they were supposed to cheer. It was quite a shock. The people then poured onto the streets, and the regime collapsed in a matter of days." Even a massive state security apparatus, personally loyal to the dictator, could not stop the people when enough of them decided they couldn't take it anymore.

Not surprisingly, my cousin had not heard of this. Couldn't the same happen in Cuba, I asked, when things get so bad that somebody might decide they've got nothing to lose? It only takes one small spark to set off a tinderbox.

My cousin's eyes lit up. "It just might." □

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California's Man-Made Drought

by Dirk Yandell and Michael C. Paganelli

Californians and other Westerners are feeling the effects of a fifth year of drought. Reservoirs are at record lows, river levels have dropped significantly, and the Sierra Nevada snow-pack has been well below normal. Water has become an everyday topic, and emotions are strong.

The shortage has led to a number of proposals to promote conservation and regulate water use. Mandatory cutbacks and master plans for conservation have been implemented or are being considered by water districts throughout California.

Water-use controls include bans on the operation of large fountains and decorative water displays, restrictions on serving water in restaurants unless requested by the customer, and bans on hosing down driveways and sidewalks. Limits on using sprinkler systems to water lawns and shrubs have been imposed, and washing cars at home and filling swimming pools and spas have been forbidden. The most severe proposals call for an outright ban on all outdoor residential water use.

Households have been warned of impending mandatory cutbacks of 30 to 50 percent from average water usage in prior years. The imposition of this severe rationing was postponed in many districts after heavy rains fell in March, but planning for such rationing continues. In San Francisco, private homes and businesses have been budgeted only 75 percent of their usual consumption. Santa Barbara households and businesses were ordered to cut water usage by 45 percent.

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Many cities are using "water-waste compliant investigators" to root out water-wasting customers. People found wasting water are first issued a series of warnings, but ultimately face fines. Unrepentant "water hogs" have flow restricters put in place to reduce water pressure and limit usage.

The problem is that all rationing plans ignore the natural forces of the marketplace. All users do not place the same value on water, but all are asked to curtail usage by the same percentage.

A Market for Water

The efficient solution is to allow a water market to develop so that allocations can be made in a competitive environment. The way to get consumers voluntarily to use less water is to allow the market price to rise to reflect its decreased availability. At higher prices, consumers will have an incentive to conserve. Water will be demanded only for its most highly valued uses. An efficient allocation results, and no regulatory intervention or costly policing is needed.

Consumers complained when the price of gasoline rose during the U.S. buildup in the Persian Gulf, but most understood that the price increase reflected the expectation of reduced availability and the uncertainty of future supplies. Shoppers understand that cold weather has a direct influence on the prices of many fruits and vegetables. Consumers regularly see prices adjust in response to changes in market forces, and yet the idea of allowing water to be allocated by the same market forces is ignored in the current debate.

The focus on residential rationing is curious

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when one considers that only about 15 percent of the water used in California goes to household and industrial sectors. The remaining 85 percent is used by agriculture. In fact, 40 percent of the state's water is used to grow rice, alfalfa, and cotton, and to irrigate pasture land for grazing by cattle and sheep. These uses combined produce only about 0.2 percent of total state income.

Water for agricultural uses often is sold at prices well below the price to residential customers. Prices charged to some agricultural users are as low as $8 per acre-foot (one acre-foot of water is the amount needed to cover one acre to a depth of one foot), compared with those to some urban users who are charged well over $200 per acre-foot. The focus of the water debate shouldn't be on the regulation of water use, but on means for efficiently allocating existing supplies.

The current allocation of water is determined by historical water rights. Such rights follow the legal concept of "first in time, first in right." This means that those who first claimed the right to a source of water may use it as long as they and their descendants live. Unfortunately, the right is simply to use the water, not to sell it.

To discourage hoarding, most Western states require that the water be applied to some "beneficial use." If not, water rights can be lost. Because of this requirement, water is used in such historically defined "beneficial uses" as irrigating acres of alfalfa or other grasses for grazing cattle or sheep, or for growing cotton or flooding rice paddies in semi-arid regions.

Farmers and ranchers with water rights have no incentive to save water. Excess water cannot be sold to eager urban consumers, and conservation techniques are many times more costly than the cost of the water saved. Farmers often get the blame for urban water shortages, but they are simply responding to incentives that government policies place before them.

Current policies have kept the price of water from reflecting its true value. One acre-foot of water contains about 326,000 gallons. A price of $200 per acre-foot is equivalent to about 6.1 cents per 100 gallons. A few cents per day to keep thousands of dollars of landscaping alive is an expense that most homeowners are happy to pay. The pleasure that a pool or spa provides is well above the cost of the water needed to fill it. Water for cooling or lubrication in a manufacturing process may be much more valuable than as an agricultural input. Mutually beneficial exchanges, made in a functioning water market, would allow farmers to sell excess water to the users who most highly value the scarce resource.

It is impossible for a central planning body to calculate all the efficient uses of a particular resource. As F. A. Hayek put it, central planners cannot compute "the infinite variety of different needs of different people which compete for the available resources. . . ."

The rational approach is to design policies that allow the marketplace to efficiently allocate water to the uses that provide the best economic return. Water markets need to be developed to allow water transfers. This doesn't mean that those with rights need lose them, but only that they face the full market costs of using water. As the price rises, some farmers may find it most profitable to leave their fields fallow and sell their water to others.

A water market will allow those with the most highly valued uses to obtain the water they need. Prices will adjust to reflect the relative scarcity of water. In periods of drought, the price will rise, which will discourage residential water use. Consumers will find it desirable to switch to brooms and low-flush toilets, just as higher beef prices encourage consumers to eat more chicken and fish. The advantage is that consumers will be free to choose how they use water, and no rationing policy need be put in place.

We all watch the disaster of economic planning in the Soviet Union and Eastern Europe and applaud their movement to a more market-oriented economy. We recognize that their chronic shortages of products from apples to automobiles are a direct result of the failure of a command economy. Somehow most policy makers don't realize that the current water shortage is the result of the same anti-market philosophy. □

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Teaching Business Ethics in an Environment of Mistrust

by Tibor R. Machan

Newsweek recently ran a "My Turn" column by Professor Amitai Etzioni. Etzioni, a professor from George Washington University, and author of *The Moral Dimension* (The Free Press, 1988), a book highly critical of market economics, taught a term of business ethics at the Harvard Business School. In his *Newsweek* piece he criticized his business school students, complaining, for example, of their meager interest in ethics.

Etzioni's main complaint was that he "clearly had not found a way to help classes full of MBA's see that there is more to life than money, power, fame and self-interest." The MBA students were disappointingly fond of business, including advertising, as far as Etzioni was concerned. Some even endorsed the idea of "consumer sovereignty," meaning that consumers pretty much have the opportunity to make up their own minds as to what they will purchase, even in the face of persuasive advertising. In response Etzioni cried out: "But what about John Kenneth Galbraith's view [which] argues that corporations actually produce the demand for their products, together with whatever they wish to sell—say male deodorants." He thus implied that consumer sovereignty is a myth—people are coerced by advertisements to buy things they "really" don't want.

We could dwell here on Etzioni's substantive criticisms of business students and professionals, and we would find that they aren't very telling. For example, there is a famous response to Galbraith's debunking of the consumer sovereignty doctrine that Etzioni fails to mention. In a piece only rarely used in business ethics texts, "The Non Sequitur of the 'Dependence Effect,'" F. A. Hayek has argued that although desires are indeed created, in a sense this is just what occurs with all innovations—artistic, scientific, religious, or whatnot. When a new symphony is written, it may "produce" a demand; people may take note of it and find it preferable to other music. So, whenever a new service or product is introduced, it obviously is hoped that someone will desire it once he or she sees its point and judges it as having merit.

No doubt there are consumers who will buy things on a whim and even waste their money on what is clearly bad for them. As against some neoclassical economists' protest that "the free exchange process benefits all participants on the market," it needs to be granted to Galbraith and Etzioni that there are market failures, that is, wrongs that can occur within the system of free exchange. Indeed, it is quite possible that in some cases one or even both parties, after the fact, will find that they have failed to benefit from trade. Yet that isn't crucial—human fallibility is certainly not confined to market behavior and has a much wider impact when government planners are given broad powers. What is doubtful is that Galbraith

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or anyone else is more competent than we are at deciding what is the right thing for us to buy.

Thus, judging by how Etzioni tells us he went about teaching his business ethics course, it is no wonder that his students responded without much enthusiasm. What our professor apparently did was not teach business ethics but engage in the familiar academic pastime of business bashing.

Anti-Capitalism in Academia

It is no surprise that Harvard MBA students found the standard approach to business ethics teaching objectionable. The message in such courses is that what people in business are doing is from the ground up morally suspect, perhaps even contemptible. It is an activity that we must, perhaps (at least for the time being), engage in but if we could only get away from it we could go out and live a decent, respectful, human life. This notion—that capitalism is just some unavoidable but nasty period of humanity's existence that will, fortunately, soon be overcome, with the capitalist class promptly liquidated when the time is ripe—has overtaken our universities because, sadly, a large portion of Western intellectual history plays right into its hands.

It is especially important to counter these views when millions of people around the world have discovered the hopelessness of socialist and Communist systems that prohibit business and denounce commerce as evil. If these views prevail, soon after economic recovery the moral conscience of these people will once again guide them toward such anti-capitalist social arrangements.

Perhaps I ought to state some of my own credentials for discussing this topic. I have taught business ethics at the College of Business and the Department of Philosophy at Auburn University in Alabama. Formerly I taught the same course at the Department of Economics at the University of California, Santa Barbara, as well as Franklin College in Lugano, Switzerland, and the University of San Diego. In these courses I treat the profession of business as every bit as capable of being honorable as any other profession. It is with this assumption that I discuss with my students various problems of ethics that might arise within business, such as unjustified dishonesty in advertising, unjust discrimination in employment and promotion, the problems of nepotism, or the complications involved in trading with foreign colleagues who adhere to standards that seem to be morally insidious. Business ethics students find none of this objectionable—even when it is suggested that often in life the so-called bottom line of profit isn't the bottom line at all.

Similarly, in teaching medical, educational, legal, or engineering ethics, the objective is to take general and mostly familiar ethical theories and show how they might be made applicable to the problems that have to be tackled within special disciplines. What would utilitarianism say about surrogate motherhood or the problem of honest communication in the case of fatal diseases? How do we apply the tenets of Christian ethics or those of ethical egoism to the problems of risk aversion in the building of high-rise apartments or automobiles?

These are the problems of some branches of applied ethics. Any such field presupposes that people want to be decent human beings in the conduct of their professions. They want to be good persons in the different roles they play in their lives, and all they really need is some enlightenment about special problems in these areas. This means taking the general ethical precepts or principles they should live by and probably have already assimilated into their lives, and showing their implications for these special areas.

That is how to teach professional ethics properly. The professor doesn't simply take a side and try to badger students into agreeing with him. Rather the tenets of the major ethical systems are aired, and the different implications they may have for the special areas of human conduct are explored.

In a book I recently edited and contributed to, *Commerce and Morality*, Douglas J. Den Uyl and I wrote an epilogue entitled "Recent Work in Business Ethics: A Survey and Critique." It appeared earlier in the *American Philosophical Quarterly*. The piece makes it clear that what the various major business ethics books and business ethics writers have been saying and what they teach have nothing in common with the way I teach business ethics. Nor, in fact, does it parallel the content of applied ethics courses for other professions.

In fact, I found that the accepted approach to teaching business ethics is seriously biased. It doesn't even cover the topic that names the course. Such courses are ironically—considering that

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"truth in labeling" is one of those public policy matters urged in them—mislabeled as "business ethics." What is going on here is not the teaching of business ethics but the maligning and attempted taming of business. We meet up with it throughout the country's universities. Most of these courses are concerned not so much with the subject matter of ethical conduct within the profession of business as with the denigration of the profession and the advocacy of public policy to reform it.

Denigrating the Pursuit of Prosperity

Most business ethics courses and textbooks tend to involve going to the students and essentially demonstrating to them that the very objective of commerce is morally shady. For these teachers and writers, the pursuit of prosperity is, if not immoral, at least amoral—without any moral significance in human life. This is despite the long tradition of ethical teaching in which the pursuit of profit could well be construed as an aspect of prudence, a trait of character that has, after all, been regarded as the first of the cardinal virtues.

Instead of seeing business as the institutional expression of prudence, business as a profession is mostly distrusted and denigrated. Accordingly, the only way to be ethical in business is to abdicate. Short of that, one is at least required to wash one's hands after leaving the executive suite.

As business ethics is conceived in much of academe, decent or moral persons in this profession must demonstrate to others that they are not seriously committed to business after all. The only reason business exists is that it turns out to be a precondition for doing some really good things in life. But a decent person in business is one who pays attention not to making money or earning a good return on investment but to rectifying social ills, what is now called being "socially responsible."

Most teachers and authors in the field of business ethics view corporate commerce in the tradition of mercantilism—corporations are entities created by the government to serve some public purpose. Professor Richard DeGeorge, who has authored numerous texts and articles in business ethics, adheres to this view, as does Ralph Nader. Both see people in the business world as entrusted with a public purpose; they shouldn't aim at economic success. They also ignore the point, made in reply by Robert Hessen, in his *In Defense of the Corporation* (Hoover Institution Press, 1979), that the idea of business corporations as entities created by the state harks back to a conception of society within the feudalist and mercantilist tradition. In that view citizens are subjects and thus lack personal sovereignty. Once this theory is understood as unjustifiably elevating some persons, namely, those exercising state power, to a superior status reigning over others, the implication is clear: The government-created-entity view of business corporations takes citizens to be essentially servile, especially in their economic endeavors.

Instead, as Hessen explains, business corporations should be seen as voluntary associations whereby people hire professionals to perform tasks so as to reap profits from them—i.e., as a means for gaining some prosperity.

Searching for Moral Substance

When business ethicists look to economists as the moral defenders of the institution of business, they will find, apart from a few cases, very little that is of moral substance. Yet that shouldn't be surprising—as students of commerce, economists seek a technical understanding of the workings of business. They don't dwell on moral issues, just as other social scientists don't. But moral philosophers shouldn't take advantage of that—and they usually don't when it comes to other social sciences.

Instead of looking to economists to explain why business might be an honorable activity, business-bashing ethicists should look to fellow ethicists. There are some who see in business activity a perfectly legitimate form of prudential behavior, aiming at the prosperity of the agents and their clients. And they should then try to come to terms with the arguments of these people from their field, ones that try to establish the moral propriety of such prudential conduct.

Instead business ethicists tend in the main to argue with people who aren't prepared to debate the fine points of moral philosophy. Thus, these business ethics teachers find little resistance from most business students to their attempt to discredit the moral foundations of bona fide business. This way they make it appear that the field is nothing but an arena of naked greed, amounting to little more than sheer vice. As even the founders of modern economics used to say, with commerce

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what we see is private vice—greed—linked with public benefit—the nation's increase of wealth.

Because of disdain toward business, business ethics courses tend not to focus on ethics proper—on how to be ethical in the performance of the tasks of the profession. Instead, they discuss what public policies we need to get business on the right track. They worry about how to force business to be socially responsible and less concerned with this morally low objective of making a profit.

Most business ethics courses and textbooks are preoccupied with politics, not ethics. Their question is, "What is it we need to do to tame business by government intervention, by regulation, by litigation?"

The answer is, "Invent a host of new rights that consumers and workers are supposed to have, rights that in our political system, based on protecting human rights, are owed government protection." These rights include workers' rights to decent wages, or women's wages based on comparable worth, the right to fairness in the marketplace, to job security, to safety and health protection on the job, and so forth. Never mind that the market may not enable employers to pay and to comply with all this, never mind what workers agree to of their own free will. Business ethicists are busily advocating a deluge of regulatory measures that require commercial agents to comply or go under.

This implies that what people in business are after—profit, which is to say, prosperity—is really not an honorable objective. We simply shouldn't let people run free when they want to acquire wealth by peaceful means. If we allow commerce at all, they say, it needs to be kept under stringent controls. This is accomplished through innumerable government regulatory bodies at the Federal, state, county, and municipal levels.

It makes little impact on business ethics teachers that often such public policies stifle what little real chance people have for economic solvency. It certainly doesn't faze them that they limit the freedom of commercial agents. After all, since no real moral merit can be found in the pursuit of profit, therefore even in case of the slightest moral demand upon those in the field, their professional objectives must be sacrificed. Solvency is of some concern, but certainly let's not be serious about it.

I'm painting a bleak picture, I know. Others who teach business ethics might be more optimistic. They may know teachers who are somewhat balanced in their approach. But the literature in the field—including major scholarly books and articles, as well as textbooks—follows the lines that I have described.

Prevailing Views of Employment

In discussions of the employment relationship, most business ethics authors and professors argue that there shouldn't be employment at will. That is, employers ought to be constrained forcibly—by government regulation or litigation, not by freely entered-into contracts—in their judgment as to whom they hire, fire, demote, or promote. This is defended on the grounds that employees are powerless, compared with employers, and they are entitled to a property interest in their jobs.

Most business ethicists also argue that employees should be forbidden from making certain kinds of decisions—choosing to work at higher risks than what is reasonable (as figured by risk analysts in academe or in the federal government). OSHA will then proceed to regiment the workplace accordingly. If employees wish to take "unreasonable" risks for higher pay, they are forbidden to do so. Government imposes a given set of standards on every business—never mind how new and how much in need of some initial cost-cutting the business might be and never mind individual differences in employee priorities.

Answers to these arguments are rarely supplied in business ethics texts and courses—except for citing some ideas from neo-classical economists who almost uniformly deny the existence of objective morality in the first place and have no direct ethical response to such complaints about the market.

Take another area. Here the objective of most business ethics professors is to show that most employees shouldn't be subordinated to managers. They argue for so-called employee rights that should diminish if not annihilate the position of management. The employer is viewed as a tyrant, oppressor, and exploiter, and this needs to be countered with some effective legislation and court decisions.

It doesn't matter that some employees prefer working for employers who take bigger risks and thus are expected to reap greater returns. Different business establishments might also require different types of organization—in some there won't

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be room for shared management roles if they are to be run efficiently. None of this matters and will be subordinated to the will of the state, with the fervent approval of many who teach our college students the ethics of business.

So we have in academe a sustained attack on the profession of business. Where students seek guidance in their preparation for the profession through the study of ethical theories and the special problems of commerce, they receive a message that their chosen profession is dishonorable and would best be totally uprooted. It is no wonder, then, that they avoid business ethics if they can, or look upon it with suspicion and fear.

Into the Moral Underground

There is yet another result: it is very difficult to induce people in business to behave themselves properly, given how utterly confused they must be by now concerning moral issues associated with their profession. It's as if we were trying to teach ethics to people we also label professional criminals. Once we have declared an activity to be categorically wrong, it is nearly impossible to upgrade it. We have driven the profession of business into the moral underground; it's no wonder that business people find themselves confused as to how to lead an upstanding professional life.

And those in business, as many of them will admit—usually to their children who then report it in the classroom—are virtually schizophrenic about their profession. They can't be proud of what they do when they discuss it at home; they are unable to tell their children, as a doctor or an educator is able to tell his or hers, that they are engaged in something honorable outside the home and that the culture respects them for it.

No, business or commerce is a kind of shady thing always under attack, and of course people in academe—as well as too many artists, politicians, movie producers, and, oddly enough, members of the business community itself—tend to sanction this reputation. After all, programs such as "Dallas" are being sponsored by corporations, as are all the sitcoms in which, for example, someone might be making a decision as to whether to become an elementary school teacher or a business executive, and the entire half hour is devoted to a humorous but biting exploration of how rotten a decision it would be if it turned out to favor joining the profession of business.

All this, of course, is quite tragic. It is probably debilitating in many more ways than I have suggested—psychologically, morally, and culturally. We are a society in which pages and pages of each newspaper are devoted to business. It is deemed a most important aspect of our lives on the one hand. On the other, however, the very people who play key roles in the drama cannot take full human pride in their activity in the way other professionals can.

Why Berate Business?

But why is this all going on in university departments of philosophy, and even in business schools? Why is it that business has such a bad press?

Many answers have been given. Some say it has to do with envy. That's probably the most prevalent analysis produced by those, such as Ludwig von Mises and Helmut Schoeck, who observe and want to understand the anti-capitalist mentality. Others discuss the fact that many people dislike and distrust economic power, which they believe can be used to exploit innocent and helpless folks. Doesn't government get "bought" by business? Thus, doesn't the blame for governmental misconduct lie with this profession? And there is also the claim that members of the business profession actually brought all this upon themselves when they wouldn't rely on the rules of the free market to play the game of commerce but urged the state to help them out in times of hardship, as did Lee Iacocca when Chrysler was in trouble.

Such explanations are unconvincing. The reason the envy premise doesn't explain very much is that there are lots of areas of life in which people are excellent or outstanding and aren't so righteously envied and denigrated as they are in the business world. Business isn't just envied, it is resented.

People win the Nobel Prize, become star singers or actors, and while there may be some shameful envy associated with this, most people recognize theirs as legitimate accomplishments and tend to honor them, flock to their movies, go to their concerts, and so forth, rather than attack them with hateful indignation and try to drag them down.

As to economic power, here the problem is that power has many sources, some more or less popular, and when we lament economic power we are

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confessing our distrust of economics. If power comes from being a celebrity or very beautiful or a great prose writer or a brilliant artist or a magnificent television commentator, we don't seem to have much trouble with that.

And concerning business's willingness to turn to the state, consider that these days practically everyone runs to government with his or her pet project. If government advances ecological interests, this is deemed to be an honorable project. If artists are given support, ethicists seem not to mind very much—nor are they disdainful about taking a few thousand tax dollars in support of their next ethics book (e.g., from the National Endowment for the Humanities).

There is a more fundamental reason why business has gotten such a bad rap. At the level of ideas this is a very ancient reason, one that comes from some very honored philosophers—Plato in particular, and to some extent Aristotle. Indeed, most major philosophical and theological figures in Western history must take the blame.

The Intellectual Roots of Hostility

The basic intellectual underpinning of the hostility to business is the idea of dualism or, more particularly, idealism. Idealism in philosophy means, roughly, that the most important reality is ideas and not nature. Put differently, it is the spiritual realm, not the natural that is of primary significance. Dualism is the view that two major elements of reality exist, the natural or material element and the spiritual or intellectual element. Dualists commonly choose the intellectual or spiritual as the one with higher substance, as the more important one.

Not surprisingly, to the extent they believe that human beings are composed of these two elements, those who hold these views usually select for special treatment and honor the intellectual element of human life. Indeed, in Aristotle's ethics the truly happy or contemplative life is the one lived entirely at the level of thought or intellect. In Plato's ethics as well as in his politics, at least at first reading, those people who specialize in mental labors—who flourish intellectually—are the most worthwhile. These then are the people who ought to be accorded the role of leadership and guidance in society. The rest—especially those occupied with the mundane tasks of trade—must be subordinated to their will.

Following this philosophical viewpoint, subsequent Western thinking fell in line. Many popular religious readings tended toward a denigration of prosperity and wealth-seeking. The institution of usury, one that characterizes the tasks of most banking and lending establishments, was condemned for centuries and found to be unnatural for human beings. And we still are told by many moralists that earning interest on money is close to the lowest form of money-making.

The only time in Western philosophy that we escaped this kind of thinking was during a very radical swing toward the other extreme. This came with Thomas Hobbes's turn to radical materialism. Hobbes, in the 17th century—following his enthusiasm for Galilean physics and science in general (which was itself given sanction through the reintroduction of Aristotle's work in Western culture by St. Thomas Aquinas)—completely denied the spiritual or intellectual realm. For him and his followers everything is matter-in-motion, and the whole world can pretty much be understood in terms of physics.

Due largely to Hobbes's influence and to that of his followers, such as Bernard Mandeville and Adam Smith, business in modern times has made some gains, at least on the practical front. Commerce has at least become legitimatized—some of the more severe disdain toward it, which had once resulted in outright bans of much of what now passes for business, is no longer institutionalized in our legal system.

Instead, what remains is a moral or ethical suspicion toward business that, however, feeds into the legal mechanism via extensive restrictions against commerce. Consider that even the First Amendment is abandoned when judges rule on commercial speech! Yet the value-free nature of the brief respite given business hasn't saved the institution from descending nearly to its earlier disreputable status.

Suppose now that we still find reality as well as human beings divided into two spheres. And suppose we designate the spiritual or intellectual sphere a higher level of reality. Then it is not surprising that those who work at supplying our material needs and wants will not be highly honored and may even be held in moral suspicion. They are threatening to divert our attention from what is truly important.

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In any case, this is what I take to be one serious way to understand why business is treated so shabbily in our culture. There are probably other reasons involved, although arguably they are not so fundamental as those I have been discussing.

Marxist Materialism

There are some apparent difficulties with the position I have advanced. One might be tempted to argue that Marxism is an exception to my analysis. After all, isn't Marxism a materialistic philosophy, and doesn't it at the same time denounce business?

First of all, Marxist materialism is a peculiar kind, dialectical materialism. It still abides by the notion of a firm hierarchy of nature. And the top of the hierarchy in human social life tends to be the intellectuals, especially in Marxism-Leninism. Those engaged in intellectual labor are regarded as of a higher caliber than those who merely do menial work. And actually one of the functions of capitalism in Marxist philosophy is to eventually do away with menial labor and thus make us ready for pure intellectual labor in Communist society.

Furthermore, according to Marxism, until in the future when humanity will be rewarded for its labors, most of us are supposed to wait around and act pretty servile. And when that future has arrived, one of the rewards to humanity will be that most of our generalized work will be intellectual, while the tedious and harsh work will be done by machines created in the capitalist phase of human history.

Marxism, in addition, holds that capitalists, who are producing for the masses what the masses ignorantly want, engender market anarchy rather than a rational economic order. But a rational order would produce what is right—that is, aside from basic necessities, goods and services arising from our intellectual talent such as musical composition and philosophical criticism.

At this juncture I am not going to criticize at great length the basic thesis underlying the denigration of business. My aim has been to pinpoint the intellectual source of this attitude and why business ethics is treated as it is at our universities and colleges. Some of my criticism is already implicit in what I've said.

Yet let me put myself on record by saying that I think the fundamental mistake is to divide human beings into separate selves and not to recognize that what they are is of one cloth, and that if they are important, they are important in all respects, in the whole of their nature as human beings. A human being is an integrated entity, and the entirety of this entity needs to be cared for and honored, not just some special part of it.

Certainly from an ethical point of view to be prudent or conscientious about one's life involves, also, taking good care of one's material well-being: clearly this is acknowledged to some extent when we are prepared to care—and gain credit for caring—about our health. But at the same time as one grants the health profession an honorable standing—probably because it is a kind of derivative theoretical science—the very same reasoning should apply in granting the business professions an honorable standing.

Worthy of Respect

Professionals in business are clearly attending to some of the legitimate purposes of human life, namely, the securing of prosperity—of a pleasant, happy, spirited, and in the final analysis robust human life. And while they may not be the main contributors to a full life, they are surely very important to it and as such their work ought to be respected. Their profession deserves all the honors given to educators, doctors, scientists, lawyers, and politicians.

And when we teach business ethics to students who will probably enter that profession, we ought to teach them not to abandon their task, feel ashamed about it, set out merely to tame it, denigrate it, consider themselves freaks. Rather they should be guided in how to do this entirely honorable task in a way fully compatible with living up to all the basic moral requirements of a human life. And it should be made clear to them that when some moral point of view appears to denounce their profession, this is not necessarily the end of the story—the moral point of view might be in error. Let them figure out how to handle it, rather than trying to indoctrinate them to believe that business must be at fault.

Business people may be told that while they are business professionals, they probably also have the responsibility, in most cases, to be concerned about how to be good fathers or mothers or citizens. That doesn't denigrate business. But it is

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another thing to tell them, "Well, you may carry on with the profession of business only because it's something we need, but it is too bad you have to. And if you can do anything else, please don't hesitate but do it." Yet this is precisely the message communicated to us all the way from TV sitcoms to the classrooms of the Harvard Business School.

Now perhaps it will be noted that other professions are often ridiculed or scorned, so why make special note of business's bad press? Yet while doctors, lawyers, politicians, and others do receive some friendly drubbing—at the hands of comics, Hollywood, and others—the business community is outright smeared and maligned. The frequency with which it turns out to be a business person who holds the smoking gun in anything from a cheap detective novel to the most expensive PBS mystery is staggering. Although Samuel Johnson may have believed that "There are few ways in which a man can be more innocently employed than in getting money," this is not at all the viewpoint of those like Arthur Miller in *Death of a Salesman* or the screen writers of *Wall Street* who all seem to agree that people in commerce are "money-grubbers."

Here in the United States, in turn, there is a new statism in the air, associated this time with the concerns we have about the environment. Despite the fact that socialist systems have coped far worse with this problem than the quasi-capitalist ones, many environmentalists continue to look to the government for managing the environment. And if it is suggested that privatization be tried, this will be resisted so long as people believe that making a profit is somehow a shady thing, especially when we face emergencies. Unless business and prosperity gain a better moral reputation, the main solution to our environmental problems will escape us, and we will continue to be plagued by ill-conceived and hopeless governmental approaches, the very ones that often created these problems in the first place.

Both justice and practicality favor re-conceiving commerce and the profession of business as morally respectable. And while the prospects of countering centuries of contrary opinion are dim, the effort to change our course seems to be well worth making. □

IDEAS ON LIBERTY

Business and Ethics

The latter part of the 18th century marks a watershed in human history. Walter Lippmann, writing about the capitalistic era which opened two hundred years ago, utters an incandescent truth about this startlingly novel way of conducting our economic affairs: "For the first time in human history men had come upon a way of producing wealth in which the good fortune of others multiplied their own." Read that one again, for it is the basic axiom of the free market economy, so fundamental that it is overlooked by friend and foe alike. Lippmann continues: "For the first time men could conceive a social order in which the ancient moral aspiration for liberty, equality, and fraternity was consistent with the abolition of poverty and the increase of wealth." (*The Good Society,* pp. 193-4)

This was the social order originally known as Classical Liberalism, built around the conviction that there is an inviolable essence in each person, which it is the function of the Law to protect. When the Law is limited to the administration of justice by securing the life, liberty and property of all persons alike, then people are free to peacefully pursue their personal goals, each respecting the right of every other to do the same. This is the good society operating under the moral law, the only kind of society in which a complex division of labor economy can flourish. . . .

Free market rules of business fall well within the moral law; and individual businessmen, large as well as small—so long as they stick to their last—measure up at least as well as members of other trades and professions.

—Edmund A. Opitz

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Child Labor and the British Industrial Revolution

by Lawrence W. Reed

Everyone agrees that in the 100 years between 1750 and 1850 there took place in Great Britain profound economic changes. This was the age of the Industrial Revolution, complete with a cascade of technical innovations, a vast increase in industrial production, a renaissance of world trade, and rapid growth of urban populations.

Where historians and other observers clash is in the interpretation of these great changes. Were they "good" or "bad"? Did they represent improvement to the citizens, or did these events set them back? Perhaps no other issue within this realm has generated more intellectual heat than the one concerning the labor of children. The enemies of freedom—of capitalism—have successfully cast this matter as an irrefutable indictment of the capitalist system as it was emerging in 19th-century Britain.

The many reports of poor working conditions and long hours of difficult toil make harrowing reading, to be sure. William Cooke Taylor wrote at the time about contemporary reformers who, witnessing children at work in factories, thought to themselves, "How much more delightful would have been the gambol of the free limbs on the hillside; the sight of the green mead with its spangles of buttercups and daisies; the song of the bird and the humming of the bee."[1]

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Of those historians who have interpreted child labor in industrial Britain as a crime of capitalism, none have been more prominent than J. L. and Barbara Hammond. Their many works, including *Lord Shaftesbury* (1923), *The Village Labourer* (1911), *The Town Labourer* (1917), and *The Skilled Labourer* (1919) have been widely promoted as "authoritative" on the issue.

The Hammonds divided the factory children into two classes: "apprentice children" and "free-labour children." It is a distinction of enormous significance, though one the authors themselves failed utterly to appreciate. Once having made the distinction, the Hammonds proceeded to treat the two classes as though no distinction between them existed at all. A deluge of false and misleading conclusions about capitalism and child labor has poured forth for years as a consequence.

Opportunity or Oppression?

"Free-labour" children were those who lived at home but worked during the days in factories at the insistence of their parents or guardians. British historian E. P. Thompson, though generally critical of the factory system, nonetheless quite properly conceded that "it is perfectly true that the parents not only needed their children's earnings, but expected them to work."[2]

Professor Ludwig von Mises, the great Austrian economist, put it well when he noted that the generally deplorable conditions extant for centuries before the Industrial Revolution, and the low lev-

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els of productivity which created them, *caused* families to embrace the new opportunities the factories represented: "It is a distortion of facts to say that the factories carried off the housewives from the nurseries and the kitchens and the children from their play. These women had nothing to cook with and to feed their children. These children were destitute and starving. Their only refuge was the factory. It saved them, in the strict sense of the term, from death by starvation."[3]

Private factory owners could not forcibly subjugate "free-labour" children; they could not compel them to work in conditions their parents found unacceptable. The mass exodus from the socialist Continent to increasingly capitalist, industrial Britain in the first half of the 19th century strongly suggests that people did indeed find the industrial order an attractive alternative. And no credible evidence exists which argues that parents in these early capitalist days were any less caring of their offspring than those of pre-capitalist times.

The situation, however, was much different for "apprentice" children, and close examination reveals that it was *these* children on whom the critics were focusing when they spoke of the "evils" of capitalism's Industrial Revolution. These youngsters, it turns out, were under the direct authority and supervision *not* of their parents in a free labor market, but of *government* officials. Many were orphans; a few were victims of negligent parents or parents whose health or lack of skills kept them from earning sufficient income to care for a family. All were in the custody of "parish authorities." As the Hammonds wrote, ". . . the first mills were placed on streams, and the necessary labour was provided by the importation of cartloads of pauper children from the workhouses in the big towns. London was an important source, for since the passing of Hanway's Act in 1767 the child population in the workhouses had enormously increased, and the parish authorities were anxious to find relief from the burden of their maintenance. . . . To the parish authorities, encumbered with great masses of unwanted children, the new cotton mills in Lancashire, Derby, and Notts were a godsend."[4]

The Hammonds proceed to report the horrors of these mills with descriptions like these: "crowded with overworked children," "hotbeds of putrid fever," "monotonous toil in a hell of human cruelty," and so forth. Page after page of the Hammonds' writings—as well as those of many other anti-capitalist historians—deal in this manner with the condition of these parish apprentices. Though consigned to the control of a government authority, these children are routinely held up as victims of the "capitalist order."

Historian Robert Hessen is one observer who has taken note of this historiographical mischief and has urged others to acknowledge the error. The parish apprentice children, he writes, were "sent into virtual slavery by the parish authorities, *a government body*: they were deserted or orphaned pauper children who were legally under the custody of the poor-law officials in the parish, and who were bound by these officials into long terms of unpaid apprenticeship in return for a bare subsistence."[5] Indeed, Hessen points out, the first Act in Britain that applied to factory children was passed to protect these very parish apprentices, not "free-labour" children.

The Role of the State

It has not been uncommon for historians, including many who lived and wrote in the 19th century, to report the travails of the apprentice children without ever realizing they were effectively indicting *government*, not the economic arrangement of free exchange we call capitalism. In 1857, Alfred Kydd published a two-volume work entitled *The History of the Factory Movement*. He speaks of "living bodies caught in the iron grip of machinery in rapid motion, and whirled in the air, bones crushed, and blood cast copiously on the floor, because of physical exhaustion." Then, in a most revealing statement, in which he refers to the children's "owners," Kydd declares that "The factory apprentices have been *sold* [emphasis mine] by auction as 'bankrupt's effects.'"[6]

A surgeon by the name of Philip Gaskell made extensive observations of the physical condition of the manufacturing population in the 1830s. He published his findings in a book in 1836 entitled *Artisans and Machinery*. The casual reader would miss the fact that, in his revelations of ghastly conditions for children, he was referring to the parish apprentices: "That glaring mismanagement existed in numberless instances there can be no doubt; and that these unprotected creatures, thus thrown entirely into the power of the manufacturer, were overworked, often badly-fed, and worse treated.

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No wonder can be felt that these glaring mischiefs attracted observation, and finally, led to the passing of the Apprentice Bill, a bill intended to regulate these matters."[7]

The Apprentice Bill that Gaskell mentioned was passed in 1802, the first of the much-heralded factory legislation, the very one Hessen stresses was aimed at the abuse by the parish officials. It remains that capitalism is not a system of compulsion. The lack of physical force, in fact, is what distinguishes it from pre-capitalist, feudal times. When feudalism reigned, men, women, and children were indeed "sold" at auction, forced to work long hours at arduous manual labor, and compelled to toil under whatever conditions and for whatever compensation pleased their masters. This was the system of serfdom, and the deplorable system of parish apprenticeship was a remnant of Britain's feudal past.

The emergence of capitalism was sparked by a desire of Englishmen to rid themselves of coercive economic arrangements. The free laborer increasingly supplanted the serf as capitalism blossomed. It is a gross and most unfortunate distortion of history for anyone to contend that capitalism or its industrialization was to blame for the agony of the apprentice children.

Though it is inaccurate to judge capitalism guilty of the sins of parish apprenticeship, it would also be inaccurate to assume that free-labor children worked under ideal conditions in the early days of the Industrial Revolution. By today's standards, their situation was clearly bad. Such capitalist achievements as air conditioning and high levels of productivity would, in time, substantially ameliorate it, however. The evidence in favor of capitalism is thus compellingly suggestive: From 1750 to 1850, when the population of Great Britain nearly tripled, *the exclusive choice* of those flocking to the country for jobs was to work for private capitalists.

The Sadler Report

A discussion of child labor in Britain would be incomplete without some reference to the famous Sadler Report. Written by a Member of Parliament in 1832 and filled with stories of brutality, degradation, and oppression against factory workers of all ages and status, it became the bible for indignant reformers well into the 20th century. The Hammonds described it as "one of the main sources of our knowledge of the conditions of factory life at the time. Its pages bring before the reader in the vivid form of dialogue the kind of life that was led by the victims of the new system."[8] Two other historians, B. L. Hutchins and A. Harrison, describe it as "one of the most valuable collections of evidence on industrial conditions that we possess."[9]

W. H. Hutt, in his essay, "The Factory System of the Early Nineteenth Century," reveals that bad as things were, they were never nearly so bad as the Sadler Report would have one believe. Sadler, it turns out, had been agitating for passage of the Ten Hours' Bill, and in doing so he employed every cheap political trick in the book, including the falsification of evidence.[10] The report was part of those tactics.

Hutt quotes R. H. Greg (author of *The Factory Question*, 1837), who accused Sadler of giving to the world "such a mass of *ex-parte* statements, and of gross falsehoods and calumnies . . . as probably never before found their way into any public document."[11]

This view is shared by no less an anti-capitalist than Friedrich Engels, partner of Karl Marx. In his book, *The Condition of the Working Classes in England*, Engels says this of the Sadler Report: "This is a very partisan document, which was drawn up entirely by enemies of the factory system for purely political purposes. Sadler was led astray by his passionate sympathies into making assertions of a most misleading and erroneous kind. He asked witnesses questions in such a way as to elicit answers which, although correct, nevertheless were stated in such a form as to give a wholly false impression."[12]

As already explained, the first of the factory legislation was an act of mercy for the enslaved apprentice children. Successive acts between 1819 and 1846, however, placed greater and greater restrictions on the employment of free-labor children. Were they necessary to correct alleged "evils of industrialization"?

The evidence strongly suggests that whatever benefits the legislation may have produced by preventing children from going to work (or raising the cost of employing them) were marginal, and probably were outweighed by the harm the laws actually caused. Gaskell admitted a short time after one of them had passed that it "caused multitudes

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of children to be dismissed, but it has only increased the evils it was intended to remedy, and must of necessity be repealed."[13]

Hutt believes that "in the case of children's labor the effects [of restrictive laws] went further than the mere loss of their work; they lost their training and, consequently, their skill as adults."[14]

Conditions of employment and sanitation were best, as the Factory Commission of 1833 documented, in the larger and newer factories. The owners of these larger establishments, which were more easily and frequently subject to visitation and scrutiny by inspectors, increasingly chose to dismiss children from employment rather than be subjected to elaborate, arbitrary, and ever-changing rules on how they might run a factory employing youths. The result of legislative intervention was that these dismissed children, most of whom needed to work in order to survive, were forced to seek jobs in smaller, older, and more out-of-the-way places where sanitation, lighting, and safety were markedly inferior.[15] Those who could not find new jobs were reduced to the status of their counterparts a hundred years before, that is, to irregular and grueling agricultural labor, or worse —in the words of Mises—"infested the country as vagabonds, beggars, tramps, robbers, and prostitutes."[16]

So it is that child labor was relieved of its worst attributes not by legislative fiat, but by the progressive march of an ever more productive, capitalist system. Child labor was virtually eliminated when, for the first time in history, the productivity of parents in free labor markets rose to the point that it was no longer economically necessary for children to work in order to survive. The emancipators and benefactors of children were not legislators or factory inspectors, but factory owners and financiers. Their efforts and investments in machinery led to a rise in real wages, to a growing abundance of goods at lower prices, and to an incomparable improvement in the general standard of living.

Of all the interpretations of industrial history, it would be difficult to find one more perverse than that which ascribes the suffering of children to capitalism and its Industrial Revolution. The popular critique of child labor in industrial Britain is unwarranted, misdirected propaganda. The Hammonds and others should have focused on the activities of *government*, not capitalists, as the source of the children's plight. It is a confusion which has unnecessarily taken a heavy toll on the case for freedom and free markets. On this issue, it is long overdue for the friends of capitalism to take the ideological and historiographical offensive. □

1. William Cooke Taylor, *The Factory System* (London, 1844), pp. 23-24.
2. E. P. Thompson, *The Making of the English Working Class* (New York: Random House, 1964), p. 339.
3. Ludwig von Mises, *Human Action* (New Haven, Connecticut: Yale University Press, 1949), p. 615.
4. J. L. and Barbara Hammond, *The Town Labourer* (London: Longmans, Green, and Co., 1917), pp. 144-45.
5. Robert Hessen, "The Effects of the Industrial Revolution on Women and Children," in Ayn Rand, *Capitalism: The Unknown Ideal* (New York: New American Library, 1967), p. 106.
6. Alfred Kydd, *The History of the Factory Movement* (New York: Burt Franklin, n.d.), pp. 21-22.
7. Philip Gaskell, *Artisans and Machinery* (New York: Augustus M. Kelley, 1968), p. 141.
8. J. L. and Barbara Hammond, *Lord Shaftesbury* (London: Constable, 1923), p. 16.
9. B. L. Hutchins and A. Harrison, *A History of Factory Legislation* (New York: Augustus M. Kelley, 1966), p. 34.
10. W. H. Hutt, "The Factory System of the Early Nineteenth Century," in F. A. Hayek, ed., *Capitalism and the Historians* (Chicago: University of Chicago Press, 1954), pp. 156-84.
11. *Ibid.*, p. 158.
12. Friedrich Engels, *The Condition of the Working Classes in England* (New York: Macmillan, 1958), p. 192.
13. Gaskell, p. 67.
14. Hutt, p. 182.
15. Hessen, p. 106.
16. Mises, p. 614.

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Why Work More?

by Roger M. Clites

Practically all governments have enacted a tax on incomes that is generally termed the "progressive income tax." I prefer to call it the "stair-step tax." The tax is structured so that each additional increment of income is taxed at a higher percentage than were the previous ones.

Usually opponents of such a tax discuss the harm it does in terms of how it reduces capital investment and thus retards economic growth. When I was a young university instructor in the 1950s, however, I came across what may be a more easily understandable example of the damage done by this stair-step tax.

A man I knew was by far the best salesman at his company. By hard work and his ability to educate potential customers about how his firm's products met their needs, he sold more than three times as much as any other salesman. In fact, while he worked he sold enough to keep 30 production employees busy.

Note the phrase, "while he worked." In the 1950s our stair-step income tax reached a far higher percentage than it does today. The top rate was over 90 percent. That's right, if your income was already high enough and you earned another dime, you didn't get to keep a whole cent!

The salesman was paid on commission, and he decided that it wasn't worth his while to continue working when the additional dollars he earned were taxed at a rate of 50 percent or more. He would rather take an extended vacation.

Therefore, about two-thirds of the way through each year, generally in late August or early September, he would ask his supervisor for a leave of absence until the following January. The company didn't like to do without its best salesman for the last third of the year, but felt that giving him a leave of absence was better than taking the chance of losing him.

The consequences of the salesman's reaction to the "soak the rich" tax structure are interesting. The salesman himself wasn't seriously hurt. He would, as he put it, spend much of the remainder of the year at Miami Beach "watching the scenery walk by."

Those most hurt were the 10 people who weren't employed by the company because of his decision to not work during the last third of the year. Since he sold enough products to provide work for 30 production workers but restricted his selling time to about two-thirds of the year, he brought in only enough orders to keep 20 production workers busy. Consequently, 10 fewer people were employed.

Thus, the tax collector's greed backfired in several ways. Since the salesman didn't work for a third of the year, he probably paid less in total taxes than he would have had he been taxed at a lower rate but on an income that would have been about 50 percent higher.

The 10 people who weren't employed may have wound up with little or no income to tax. In fact, they may have become a drain on the tax revenues that other people paid.

Thus, the tax collector's greed caused a loss of revenues from two sources, and it likely added a drain on the public treasury. But, remember, those *most* hurt by the "soak the rich" policy were not "the rich." They were the 10 people who weren't employed. □

Professor Clites teaches economics at St. Mary's College in Winona, Minnesota.

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Fire-Fighting for Profit

by Nancy W. Poole

Fire-fighting services don't need to be provided by government. For-profit is better, and Scottsdale, Arizona, industry leader Rural/Metro Corporation proves the point. Mayor Herbert R. Drinkwater doesn't need prodding to lavish praise on Scottsdale's second largest nationally headquartered company. "I'm a great believer that the private sector can normally do things a little better than the public sector—and for less money," says Drinkwater. "Our fire service does a superb job," he continues matter-of-factly. "The citizens of Scottsdale love it. I get compliments all the time on Rural/Metro's performance."

Statistics back the mayor's enthusiasm. A recent poll by Arizona Opinion and Political Research found that by a margin of six-to-one, Scottsdale voters prefer Rural/Metro to the option of a municipally owned fire department.

Moreover, the price is right. Drinkwater says that because of Rural/Metro, Scottsdale citizens benefit from a superior level of fire service at a considerably lower cost than if the city had a municipal fire department.

Drinkwater, however, doesn't want to focus exclusively on economics. "Even more important," he stresses, "the kind of service Rural/Metro provides is based on incentive and innovation. So our citizens aren't subject to the constraints experienced with traditional municipal fire departments."

For example? "The traditional emphasis is on fire response," Drinkwater answers. "We think Rural/Metro's emphasis on prevention is a more effective way to deal with fire protection service. The company's core philosophy is prevention. As a result, Scottsdale citizens are offered a much better balance between response and prevention than is available in most communities."

Rural/Metro's unique mix of part-time firefighters working alongside career professionals makes Scottsdale's fire protection service one of the most economical in the nation, and one of the most effective.

There are literally hundreds of small private fire companies along with seven industry leaders in 14 states, according to Private Sector Fire Association statistics. Rural/Metro is not only the largest such company in the country, it is an industry model for customer service, excellence, cost containment, and innovation.

For example, an increasing number of established departments are emulating Rural/Metro's subscription services in remote areas. Rural/Metro created the concept of providing fire protection to areas that might otherwise have difficulty obtaining any fire or emergency medical service at all—communities without the tax base to subsidize fire departments. Rural/Metro currently services communities in Arizona, Tennessee, and Oregon on a subscription basis.

The subscription process is voluntary. Rural/Metro contracts with home and property owners in subscription areas, who pay annual fees for fire protection and emergency medical service. Level of service is based on population density and geography.

Rural/Metro is the first-responder agency in these locales. A non-subscriber must pay a fairly high hourly rate per fire-fighting unit if it is necessary for Rural/Metro to respond to a fire at that

Nancy W. Poole is a free-lance writer based in Scottsdale, Arizona.

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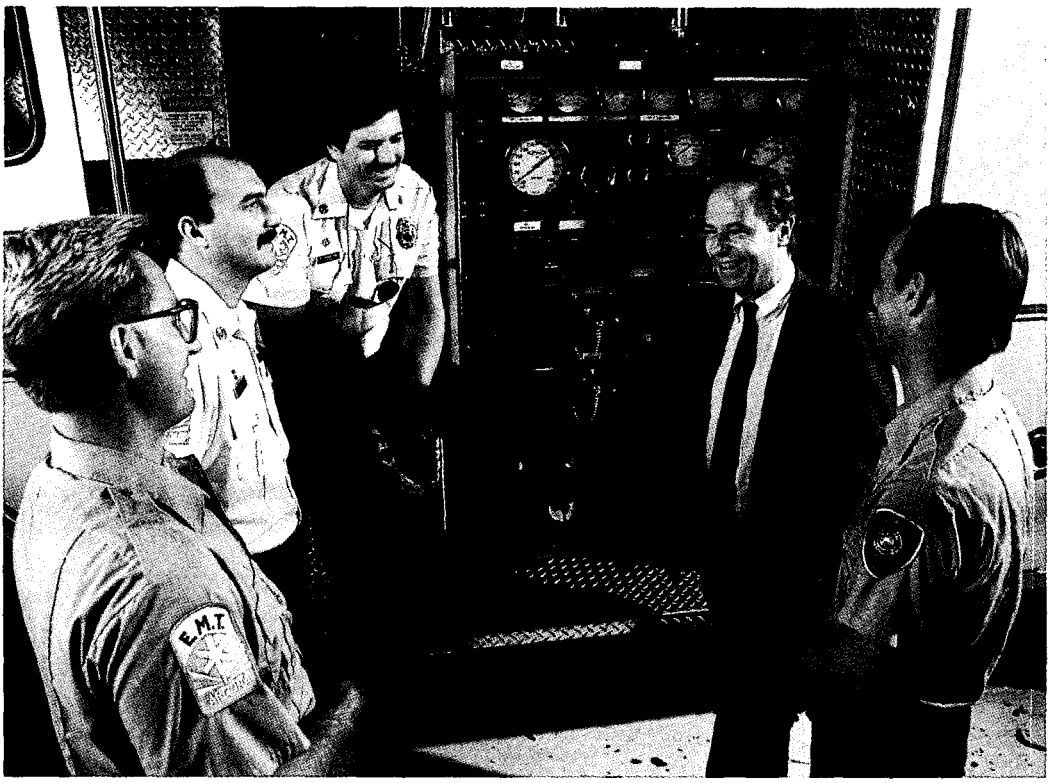

TOM JOHNSON

Robert Manschot and crew.

person's residence or property. (The adequate protection of members' properties requires response to all fires and medical emergencies in a subscription area.)

Service Tailored to Needs

Another company tenet is the tailoring of services to each area's needs. For instance, poisonous desert reptiles are removed from members' homes or properties, at no extra charge. Or how about bursting water pipes? Rural/Metro subscription customers know the company will shut off utilities and remove excess water from their homes as a matter of routine, at no additional cost. The list goes on and on.

Typically, the difference between public and private fire-fighting services isn't a matter of available resources, but in the management of those resources. The private sector depends on management skills for its results. In the case of Rural/Metro, the average per capita cost to subscription customers in Arizona is 25 to 50 percent lower than for similar services nationally.

"We are *forced* to be more economical but at the same time provide excellent service, since the private citizen has other options," says Robert Manschot, Rural/Metro's president and CEO. "Otherwise, we will not survive. Communities can and do have specific cost and performance requirements; if we don't produce, our customers can release us. This is a task not easily accomplished when a community has a municipal department! Because we pioneered the concept of matching manpower and equipment to each service area's needs, we can do a better job for less money."

Rural/Metro's vice president of fire operations Robert T. Edwards puts it another way, half-jokingly: "Our fire-fighters must bleed green." His statement refers to a company slogan about loyalty. Rural/Metro began painting its fire apparatus lime green in 1972 for safety purposes, after a national study showed this to be the most visible color in evening and all weather conditions.

Edwards continues more seriously. "Can you imagine what our liability risk would be if our fire-fighters weren't extremely well trained and state-of-the-art in performance?" With a sharp rap of knuckles on the wood conference table, he points out that, so far, no Rural/Metro fire-fighters have

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lost their lives on the job. "Naturally, this shows we're doing something right; but what it really shows is that the guys we train are trained to think. They see a hazard and don't wait to be told what to do."

The Growth of Rural/Metro

When newspaperman Louis Witzeman founded Rural/Metro Corporation in 1948, it was probably the last thing in the world he'd planned on doing. There was no fire protection for his home, and he simply wanted to get it. Neighbors promised to pay him $10 a year for fire protection, and the 21-year-old Witzeman invested his last $900 in a fire truck. So much for promises. Stuck with the truck when his neighbors didn't follow through, Witzeman had to go into business. So it was that one truck, four men, and a modest budget started a fire protection subscription-based business that grossed $30,000 in its first year.

What is now the city of Scottsdale was incorporated in 1951, and Rural/Metro has continued to provide fire and medical emergency services. Since that time, the community has grown from a town of 2,000 people to a thriving metropolitan area of 126,000.

Today, more than 50 communities in five states take advantage of Rural/Metro's innovative private-sector approach to emergency services. Over 1,800 highly trained specialists provide fire, ambulance, and other services to five million people, responding to over 300,000 calls for assistance each year. Rural/Metro operates the equivalent of over 20 fire departments nationwide.

In addition, Rural/Metro has a wild-land fire division, and offers fire and safety services to the Potlatch Paper Company and other private companies—plus providing training programs in handling hazardous materials and manning industrial fire brigades.

When Witzeman left the company in 1978, he sold it to his employees, making Rural/Metro unique in this respect among private sector emergency services. "We believe that employee-owners make better employees," Edwards stresses. "For example, a fire-fighter who finds a bulb out on his truck could open a package with two bulbs in it, use the one he needs, and throw the other one away. An employee-owner will put the extra bulb back on the shelf. He is cost-conscious."

"Furthermore," says Manschot, "since the *owners* of Rural/Metro respond to our customers' emergencies, they respond faster, better, and with genuine caring."

Accordingly, a recent study by The University City Science Center of Herndon, Virginia, praises Rural/Metro as "one of the best departments we have had an opportunity to review." The report cites the company's "model prevention and inspection program . . . [which] provides citizens with a higher degree of safety than available in most communities." Beyond that, because of Rural/Metro's strong prevention ethic, Scottsdale enjoys one of the lowest fire incident and loss records in the nation, for a city its size. This helps keep the costs of Rural/Metro's services low compared with other communities.

New Management Sparks Innovations

Robert Manschot became Rural/Metro President/CEO in 1988. After 14 years of running hotels internationally for Sheraton and Intercontinental, he had joined The Hay Group, a human resources-oriented consulting firm—the largest of its kind in the world—becoming a worldwide partner. Rural/Metro hired Manschot as a consultant in 1987, and then offered him the position of chief operating officer, which he accepted.

Why Rural/Metro? Manschot answers quickly. "After working with hundreds of companies, I had the urge to practice what I preached. Rural/Metro is one of the most unique companies I'd ever worked with, and it attracted me because of characteristics I felt were related to my strengths. Expertise in fire, ambulance, and various other lines of business were already in place, but Rural/Metro had expanded so rapidly it lacked established infrastructures."

"No other privatized emergency services company can boast our kind of diversity," Manschot points out, referring to Rural/Metro's multi-state and international operations. "Falck, located in Denmark, is the largest privatized emergency services company in the world. However, last year we entered the international arena in a joint venture with the Holland-based Smit Fire & Loss Prevention Company to provide off-shore and petrochemical fire-fighting expertise internationally."

As a result of this agreement, Rural/Metro fire-

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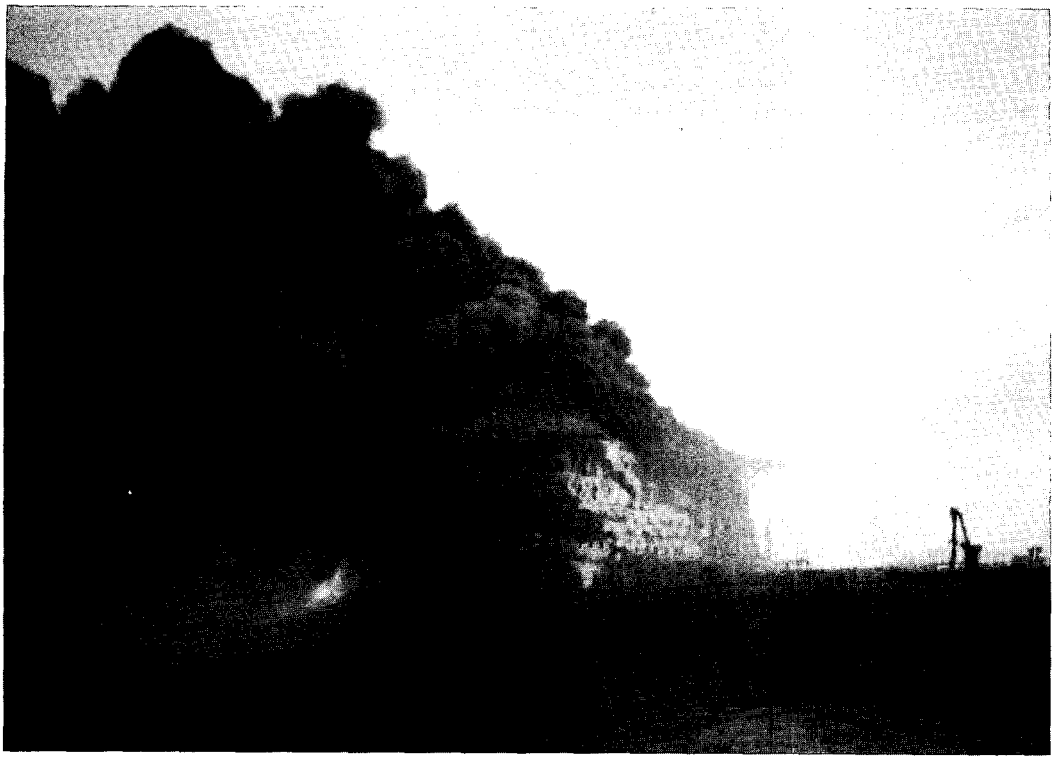

***Rural/Metro firefighters were three of six specialists called to battle a fire on the Norwegian tanker* Mega Borg.**

fighters were three of six specialists called from around the world last summer to successfully battle a fire on the Norwegian tanker *Mega Borg* in the Gulf of Mexico.

Since joining the company, Manschot has streamlined operations to bring about maximum communication, efficiency, and cost-effectiveness. The energetic Dutchman leans forward for emphasis. "I believe that your strongest asset is your people—not your capital, not your equipment, but your people—the empowerment of the employees, which has nothing to do with unions."

"What we like to do," he continues, "is push the entrepreneur role down to our general managers; then these managers push it down ever further to our employees, stretching them to be innovative."

Every month, Rural/Metro's "Idea Program" offers innovative employees who contribute ideas that are implemented a percentage of whatever dollar amount the company makes or saves as a result. Rural/Metro also rewards "Conscientious and Responsible Effort" (CARE) on a regular basis. Don Niesen, an employee in Yuma, Arizona, received a CARE award last October, in recognition of the many extra hours of time he had donated for equipment repairs and maintenance. The CARE award is a $50 gift certificate for dinner at a restaurant of choice.

Manschot and other Rural/Metro managers spend one-third of their time visiting employees on-site. "We want our employees' ideas," Manschot stresses. "However, I also believe that employees must be *taught* how to be more autonomous and participate in decision-making. Empowerment goes hand-in-hand with accountability," he continues. "Managers and employees must be accountable for their own success. The strategy must be pervasive and ongoing. That is why we have task forces and 'shadow' boards to deal with strategic issues. Since we almost *are* the industry, we must train our own managers."

Paramedic Bob Videan gives an example. His immediate supervisor, Clint Vardeman, returned to home base recently from the Florida operation. "Clint has put together two weekend-long 'camps' held at his home," explains Videan. "I saw enough value in the first one that I volunteered to be faculty for the latest session. The presentations are well organized, and we have time at the end for open discussion—which is *very active*."

"For one thing," he continues, "these 'camps' have helped us know Clint, and certainly have cre-

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ated an esprit de corps. Employees from all over the country were at both 'camps.'"

According to Vardeman, employees receive special invitations to these weekend sessions, which are structured and informational with ample time for brainstorming during the day. After dinner, all present break for games and socializing. Eventually, every ambulance company employee will be invited to a "camp."

"At the end, we summarize our ideas, and all employees receive a copy of the summary," Vardeman comments. "We follow up by letting them know when ideas from these sessions are being implemented."

Manschot indicates that a Rural/Metro firefighter or paramedic can be a senior manager within eight or nine years. "If we want to continue at our present rate of expansion," he emphasizes, "we will need 50 new managers five years from now. This is the reason we have a very strong training and development program."

In 1987, Rural/Metro acquired Arizona Medical Transport (AMT), a private ambulance company, and AMT paramedic Videan became a Rural/Metro employee. "Within three months," he says, "we were better equipped than we'd been at any time during the previous 10 years since I started with AMT. Mr. Manschot has brought about extensive communication between top-level management and field crews. The difference is like night and day."

Fighting Fire with Prevention

Rural/Metro has a strong prevention ethic. "The best way to fight fires is to prevent them," comments Edwards. "For example, we have a much higher number of inspectors per capita than is the norm." Rural/Metro fire inspectors are also asked to serve as fire-fighters, so that their awareness of hazards in buildings throughout the community often aids in the suppression of fires. "For us," Edwards explains, "it's not prevention *and* suppression; instead, it's prevention/suppression—the two components interact."

As a national leader in the development of fire prevention programs, Rural/Metro abundantly communicates prevention to its customers through many training and education programs. These include home fire-safety inspections, CPR classes, emergency first aid, water and mountain rescue courses, and hazardous materials services, as well as fire safety education classes in the schools.

With top performance records and dramatically lower costs than publicly owned counterparts, Rural/Metro is a hard-to-beat sell. Nevertheless, since public sector turf is often just across the street, the company's nonunion, privatized operation is frequently a target for intra-city politics and media misconceptions. (Rural/Metro's employees recently voted down union membership.) Firefighter Wes Kemp elaborates. "Our position as a privatized emergency services company is a challenge because we are continually up against the municipalities to prove ourselves."

Historically, a rivalry has existed between Rural/Metro and unionized municipal departments. "We position the company not in a directly competitive mode with these departments, but as a fire service alternative," says Suzanne Brossart, Rural/Metro's corporate communications manager. Brossart adds that Rural/Metro does not approach communities that have established municipal fire departments. "Instead," she explains, "we prefer to target small but growing communities that don't have fire departments or that want to expand volunteer departments into full-time services. With this approach, we can build our strong fire prevention and operational philosophies directly into a community's development."

President/CEO Manschot adds, "We must continue building relations with other agencies, and reinforcing an atmosphere of mutual cooperation and respect."

Rural/Metro's philosophy translates into financial success. Corporate revenues have grown over the past 10 years from $6 million to almost $65 million annually, increasing in the past three years alone by over $24 million. Revenues for the current fiscal year are estimated at nearly $68 million.

Rural/Metro Corporation has shown that firefighting and other emergency services can be privatized, with outstanding results. As municipal budget crises plague many communities, privatization is an option that merits careful study. □

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Public Interest Is Usually Special Interest

by Dwight R. Lee and Robert L. Sexton

Special interest groups have been quick to tap the public till. Of course, they usually aren't so blunt as to demand tax money for their personal benefit. They have found a more effective strategy: obtain government subsidies for their pet project by arguing that it will benefit everyone in the community. Their project, in fact, is something we all "need." It's amazing what a person will "need" when someone else is picking up the tab.

A natural response is: "If your project is so desirable, why do you have to come to the government to get it funded? If everyone needs a good or service so much, why aren't they willing to pay for it?" (In which case some enterprising entrepreneur will gladly supply it.)

Most special-interest advocates have a couple of answers. They argue that most people aren't aware of all the benefits they will receive from the project, or that the project is a public good and deserves support on that basis.

The first answer should persuade very few. If you don't benefit from a private good, it's because you don't care enough to purchase and consume it. Of course, there are always people who feel that you aren't very bright if you don't like the same things they do. But how you spend your money is your concern, not theirs.

If the lobbyist claims public-good status for his or her proposal, at least two questions need to be asked. Does the project convey important benefits to the community at large? Is it impossible to deny these benefits to anyone once the project is completed? Few projects meet these standards. But you would be amazed at the number of projects that are funded at public expense because they are supposedly public goods.

For example, many big cities have built large sports arenas at taxpayer expense. Supporters claim that a sports arena, with the major-league teams that usually go with it, brings recognition and fame and revenue to the city. Furthermore, supporters assert, this will benefit everyone in the city, whether they are sports fans or not, because they will be living in a more prestigious community. And this justifies coercing everyone to pay for it.

Clearly, this is a weak argument. The people who benefit the most from a sports arena are the fans who use it. But it's easy to prevent someone from receiving this benefit if he doesn't buy a ticket. And it isn't true that everyone will benefit. For example, sports arenas create traffic congestion that many find objectionable.

It's probably true that some people who never attend a sporting event may feel a little better just knowing that they can, or knowing that their city makes national news occasionally for something other than a rising crime rate. But does this justify commandeering funds from everyone in the city to build a sports arena? What about fine restaurants? Certainly fine restaurants enhance the reputation of a city. Many people are happy to know that one is nearby, waiting to serve them, whether they visit it or not. But most people would find a proposal to build publicly financed restaurants a little far-

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fetched. If desirable side effects justified government subsidies, then well-kept yards, hair styling, pretty dresses, face lifts, car washes, toothpaste, deodorants, smiles, ice cream parlors, and athlete's-foot medication would all qualify for a handout.

We need to recognize that special interest groups expend a lot of effort to get subsidies for things that they enjoy. The sports arena is only one example. The more "cultured," and usually wealthier, denizens of many cities have managed to obtain government support for symphonies, operas, ballet, and the performing arts in general. The justification they give is similar to that for subsidizing sports arenas. Supposedly, everyone in a community will benefit, even those who prefer to sit home with a can of beer and watch all-star wrestling on television.

There are many other examples of special interest groups seeking public funds for goods and services that primarily benefit them. Just follow the proposals and requests that come before meetings of locally elected officials. You probably will be surprised at the number of "socially concerned" people who have identified some urgent public "need." □

Karl Marx: An Irrelevant Man

by Donald G. Smith

I remember reading Karl Marx in college. The assignment was, to understate the case, a tedious experience. There is a quality about this ponderously dull man that makes the eyelids heavy, and his work is not recommended for a pleasant afternoon at the beach. In defense of Marx, however, the writing that we see is a translation, and the passage of thought from one language to another often has the effect of squeezing out the pithy phrases and the clever shades of meaning. I doubt that this happened to any significant degree with Marx, but it is still possible that he is more of a thundering bore in English than in the original German. Let's give him the benefit of a doubt on this one.

Mr. Smith is a writer living in Santa Maria, California. He has been a frequent contributor to The Wall Street Journal.

Over the years I have also remembered Marx as a man who was simply wrong in the conclusions that he reached, but here was another judgment that couldn't be put to rest that easily. I have always had some trouble with the word *wrong* in regard to Karl Marx because he wasn't one for hitting nails squarely on heads, and his oblique phraseology didn't lend itself to the simplicity of right and wrong. Adolf Hitler was wrong throughout *Mein Kampf*, but not in the sense that the word would apply to Marx. There is a certain specificity to being wrong that applies to a Hitler but not to a Marx.

It is *wrong*, for example, to say that Altoona is the capital of Pennsylvania, but the word cannot be so easily applied to the proposition that Altoona is, or is not, a nice place to live. Hitler would have gone with the first statement and gasped his last mortal breath insisting that it was

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correct. Marx would have preferred the other proposition, making fuzzy and ill-conceived statements that have no basis in fact but are hard to support or refute.

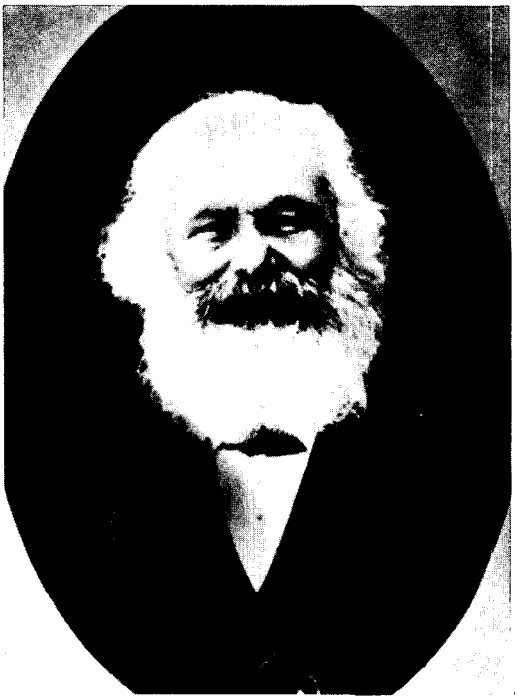
I have been rereading Marx in recent weeks, and I am turned off to the same extent that I was in my undergraduate days. I now believe, however, that I can pinpoint the reason that Karl and I just don't get along. The word that I had sought for so many years was not *dull* and it was not *wrong*. The word for Karl Marx is *irrelevant.*

One will note that Marx prattled incessantly about the great class struggle. This might have had some meaning for 19th-century Europeans, but it means absolutely nothing to Americans of any century. We are a nation of individuals with very little concept of social or economic class. Our group affiliations are temporal: an afternoon cheering for the home team, a lodge meeting, or a get-together with the property owners' association, but it ends when we step outside and become individuals again. I suppose that a contemporary American could hold his or her income up to some economic scale and find a place in a pre-selected bracket, but it really doesn't mean much to anyone. Certainly there is no class struggle, and I don't think that I know anyone who could define the term, or who cares enough to find out.

The Irrelevance of Labels

Marx uses the words *bourgeoisie* and *proletarian* repeatedly, and both are about as relevant to our lives as hoop skirts and butter churns. I know what the words mean, or what they meant to Karl Marx, but there are too many people who fit into both categories, or neither, for the words to have any applicability. I would be hard put to label anyone I know as one or the other. If a man repairs shoes, for example, he is probably a proletarian, but what if he owns the shop and he is the only employee? This makes him the boss and also the one who does all the work. In the great revolution, Marx would probably have him destroy himself.

Marx was obsessed with the idea of class, but to most Americans this is a vague, if meaningless,



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Karl Marx (1818-1883) This portrait, taken in 1882 in Algiers, is the last known photo of Marx.

concept. We see the world as individuals, a group of divergent entities, each with a unique value and making up a collective body that is less important than its parts.

If one would ask the proverbial man-on-the-street American to pinpoint himself on a class scale, he would probably come up with an answer of sorts, but it would be offered with a shrug of the shoulders and a "Who cares?" tone of voice. Class loyalty is about one step below loyalty to a bowling team or an alumni association in human intensity. Certainly no American is going to take to the streets for the honor of the citizens in his salary bracket.

This, I believe, is the reason that Karl Marx has made so little impact on American thought processes. No one is quite sure what the man was talking about, and if they ever found out, they wouldn't care anyway. He wasn't evil, he wasn't insane, and he certainly wasn't stupid. On our side of the Atlantic, he is merely irrelevant. To put it succinctly, Karl Marx is a man with nothing to say to the American people. □

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A REVIEWER'S
NOTEBOOK

A Child of Fortune

by John Chamberlain

We almost lost our Constitution before we had one. Jeffrey St. John, a journalist of talents who decided to put himself into a reporter's position at the secretive meetings of 38 delegates who framed the Constitution in the hot Philadelphia summer of 1787, opens the second book of a trilogy with the story of a narrow escape.

The date was the third week of September in 1787. General George Washington was returning to his farm at Mount Vernon on the Potomac with the new Constitution in his keeping. Crossing the Elk River in northeast Maryland, his carriage fell through the rotten planks of a makeshift bridge. His horses hung suspended 15 feet above the Elk flood. As a reporter who gives us this information, St. John has an uncharacteristic lapse—he doesn't furnish the details of how local citizens brought the animals to safe ground.

Otherwise St. John plays his clever game of reporting the struggles which gave us our Constitution and our first President. He makes you see what a crushing blow it would have been if Washington had not made it safely to Mount Vernon.

The first volume of St. John's projected trilogy was called *Constitutional Journal*. It appeared in the bicentennial year of 1987 after running as a daily newspaper series in the *Christian Science Monitor*.

In a foreword to the second printing of *Constitutional Journal*, retired Chief Justice Warren Burger wrote that "St. John . . . takes the reader through the debate, day by day, in an entertaining style that succeeds in conveying both the historical facts and the emotion and drama of the debates." Justice Burger has continued his support of St. John by offering a foreword to volume two, published as *A Child of Fortune* (Jameson Books, 392 pages, $24.95 cloth). The title comes from a letter written by Washington to the Marquis de Lafayette: "It is now a Child of Fortune, to be fostered by some and buffeted by others.... I suppose it will work its way if good; if bad, it will recoil on the Framers."

Recoil there was to some degree: the provision that extended the slave trade for 20 years wasn't liked in the Northeast, but it had to be accepted as a compromise to keep the Southern states in line. The anti-federalists (and there were many) would have liked to sustain some connection with the Articles of Confederation, but they were objective men. They were primarily students of geography. The Spanish empire to the south of the 13 colonies and the British to the north in Canada controlled access to two great river systems, the Mississippi and the St. Lawrence. To deal with empires controlling river systems, something stronger than 13 independent colonies was needed. This was the thought that guided the Philadelphia delegates in their Constitution-making. They were happy to have the French, then headed for their own revolution, on their side, but Quebec might become an enemy if the French Revolution went askew. There had once been a French and Indian War. Spaniards were inciting Indians in Georgia even as the Constitution was being debated.

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For *A Child of Fortune*, St. John pretends he is a reporter at ratification debates in 11 states. He makes the progress of ratification exciting even though the reader knows that the stipulated number of nine ratifying states will be reached. Delaware, with more Senators than Representatives, was the first to ratify, followed by Pennsylvania and New Jersey. There were riots in Pennsylvania. New Jersey, a "barrel tapped at both ends," was easy, for its traders stood to benefit from being a corridor from New York to Philadelphia. Georgia came into line in late December of 1787 on a unanimous vote, with vows to keep the Creek Indians at bay. But there was more to it than that. St. John quotes Georgia's chief justice as saying his state "suffers from wounded credit." Paper money was indeed a curse in all the colonies, and the Founders were agreed with Oliver Ellsworth of Connecticut that the wisest thing done at Philadelphia was to forbid its printing by the states.

Connecticut became the fifth ratifying state, and the first in New England, for economic reasons specified by Ellsworth. Massachusetts became number six. Shays's Rebellion against debt foreclosures in the western part of the state was still a vivid warning in Boston. Governor Hancock covered himself with glory—and promoted his own case for the Vice Presidency—as the great conciliator of the Massachusetts convention. But John Adams got the Vice Presidency.

The Lees of Virginia had started talking about a Bill of Rights. Thomas Jefferson, then absent in Paris as ambassador, was in agreement. Patrick Henry in Virginia, the orator of the Revolution, let it be known that he favored acceptance of a Bill of Rights as a "condition" for ratification. There followed the epic struggle between the distrustful patriots Henry and James Madison, with Madison (and General Washington) holding for voluntary amendments to the Constitution. The voluntarists won in Maryland, seventh state to ratify, and in South Carolina (the eighth). New Hampshire became the ninth, giving "legal life" to the Constitution.

Legal life, however, would not have meant real life if Virginia and New York hadn't been satisfied with promises of a Bill of Rights.

Jeffrey St. John is currently busy with his third volume, which will follow events leading to Congressional adoption of the Bill of Rights. □

THE MYTH OF SCIENTIFIC PUBLIC POLICY

by Robert Formaini

Transaction Publishers, Rutgers University, New Brunswick, NJ 08903 • 1990 • 129 pages • $24.95 cloth; $14.95 paper

Reviewed by John Semmens

The thesis of this book—that an objective, scientifically determined public policy is impossible—stands in stark contrast to the proliferation of public planning agencies that has occurred over the last generation. The goal of a scientific public policy would appear meritorious. Using research and experimentation to gather evidence with which to guide public policy decisions would seem superior to reliance on unresearched and untested opinions. Nevertheless, the author contends that all the research in support of government intervention adds up to essentially nothing.

Public policy decisions are inherently entangled with value judgments. The aim of policy is to do "good," however that may be defined. Since definitions of the "good" will differ, demonstrating that one policy is superior to another must quickly run into subjective inputs. For example, no public policy has uniformly beneficial effects on everyone. Some will be helped, others may be hurt. Balancing the help and the hurt is the ostensible goal of a scientific approach to policy-making.

The tools of scientific policy-making include "risk assessment," "cost/benefit analysis," and "environmental impact analysis." However, researchers don't agree on just how these tools should be used. Yet, the way in which a tool is used can affect the result.

Consider, for example, the 1987 speed-limit increase on rural interstate highways. Since the limit was raised to 65 miles per hour, studies have been done to show that accidents and fatalities have increased. Focus on the affected routes reveals, unsurprisingly, higher incidences of accidents. However, other researchers question the scope of the analysis and point to lower overall accident and fatality rates. Scientists come down on both sides of the policy issue of whether the increase in speed limit was a "good" or "bad" policy change from the perspective of safety. The policy question becomes even more complicated when we consider other travel dimensions such as time and convenience.

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The end result of policy decisions is frequently a law or a regulation compelling people to modify behavior or to finance government programs. Even if we were convinced that the majority of people would benefit, there is still the uncomfortable aspect that the law compels some to take actions from which they will not benefit, or perhaps even be harmed. In the absence of the compulsion of law or regulation, people are making the choices that they perceive as optimal. Initiating the compulsion will shift people into behaviors that they did not freely choose. The inevitable consequence is that there will be less satisfactory results despite the noblest of intentions.

As an alternative to relying on the choices people make in the free market, many advocates of government intervention imagine that we can rely on information obtained from polls or surveys. Unfortunately, such data are less reliable than many might hope. The wording of survey questions can easily force the desired result. In the eagerness to discover a wellspring of popular support for a government project, researchers can lapse into faulty survey design and achieve misleading answers. Even if the questions are designed with utmost care, respondents may misperceive or misrepresent their own preferences.

A case in point is the survey carried out on the "Sardine Express" train during the 1980 Phoenix flood. For a period, all but two highway bridges over a river that splits the metropolitan region were closed or washed away. Commuters packed the trains set up to offer an alternative service during the emergency. A survey of riders showed that the average rider evinced a willingness to pay more than twice the existing fare and to ride the train regularly once the emergency had passed. Yet, the day a third bridge over the river was restored to service (by no means eliminating the crushing traffic jams) train ridership dropped by 75 percent.

The severed link between the costs and benefits of public projects aggravates the problem of determining the relative worth of each project. This is probably what lies behind the phenomenon of a voter population that wants more services from government, but doesn't want to pay more taxes. If we ask people whether they want more roads, parks, police, or whatever and no price tag is attached, large majorities will respond in the affirmative. If we ask them if they want to pay higher taxes, they will naturally say no. Hence, we have persistent crises in government budgets.

The private sector resolves this dilemma by putting the price tags right on the merchandise. Then those who truly value the product at more than the cost will buy. Those with an opposite opinion won't buy. This linkage between costs and benefits simplifies the problem for private sector firms. Tax-funded projects are denied this crucial measure of true value.

Robert Formaini is not an opponent of science per se. He does assert, though, that more skepticism should be applied to the claims made on behalf of government intervention. The scientific studies purporting to show gains from displacing the market with government edicts are fatally flawed. The benefits are typically inflated. The costs are repeatedly underestimated. The risks are always far greater than admitted.

The alternative to a pseudo-scientific backing of more interference with freedom of choice is a greater appreciation of the irreplaceable role played by voluntary transactions in the marketplace. When people are free to choose, they are in the best position to maximize both individual and social well-being. Recognition of this fact would be the most scientific approach to public policy-making. □

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IF YOU'RE SO SMART: THE NARRATIVE OF ECONOMIC EXPERTISE

by Donald N. McCloskey

The University of Chicago Press, 11030 S. Langley Avenue, Chicago, IL 60628 • 180 pages • 1990 • $17.95 cloth

Reviewed by Russell Shannon

One can almost predict it. It usually happens whenever I give a talk to a civic club or some other group. It's almost sure to occur at a social gathering when people discover that I teach economics. Sooner or later, someone is bound to ask: "What do you think is going to happen to interest rates?"

Years ago, I was not only surprised by the question but also somewhat annoyed, since I'm not greatly interested in what is largely a financial matter. But as the question persisted, I began to ask

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myself, "What would I do if I really *knew* where interest rates are headed?" I finally realized that the best response to the question was quite simple albeit a bit rude: "If I did know what was going to happen to interest rates, would I waste my time talking to you?"

Now Donald N. McCloskey, an economist at the University of Iowa, has written a book that addresses this very issue. Broadly speaking, his book is about the rhetoric economists use. It is directed mainly at non-economists, but it has much to recommend it to economists as well.

The book's title derives from what Professor McCloskey calls "the great American question." That is, "If you're so smart, why ain't you rich?" Speaking directly to the issue I have raised, he points out that if economists really did know the future of interest rates, they would be too busy phoning instructions to their stockbrokers to be attending cocktail parties.

But, of course, economists are no more knowledgeable about how to turn a quick buck than ordinary people are; in fact, they obviously know a good bit less than such active entrepreneurs as the John D. Rockefellers and Donald Trumps in our society. In that regard, McCloskey indicates that economists play roles akin to those of art, theater, and music critics. If these people could actually paint the *Mona Lisa*, write *Hamlet*, or compose *Swan Lake*, then surely they would be doing that instead of writing columns for newspapers and magazines.

Then why do people turn so often to economists for financial advice—not just at luncheons and cocktail parties, but professionally, and at a steep fee, for guidance on managing trust funds and other investments? (In fact, some firms such as Otto Eckstein's Data Resources have used complex economic models to rake in enormous sums of money from clients.)

McCloskey offers an enlightening explanation. He tells us that "James Burk, a sociologist and former stockbroker . . . found that the advice-giving industry sprang from legal decisions early in the century. . . . The courts began to decide that the trustee of a pension fund or of a child's inheritance could be held liable for bad investing if he did not take advice. The effect would have been the same had the courts decided that prudent men should consult Ouija boards or the flights of birds." The result was a burgeoning business for economic forecasters.

By casting doubt on the ability of economists to prophesy the future, McCloskey is similarly throwing a blanket over the efforts of social planners to make dramatic improvements in our well-being through the power of centralized government control. If planners were so smart, then why haven't they made countries rich? Of course, the current collapse of Communism in Eastern Europe and the Soviet Union confirms the validity of McCloskey's disdain for such schemes.

Indeed, therein lies what McCloskey sees as the true nature of the benefits to be gained from economic expertise—not predicting future events but illuminating the past. As he puts it, "The point is to know history, not to change it." In McCloskey's view, economic rhetoric can perform a valuable social function by providing stories, such as those about the adverse impact of governmental regulation and the beneficial effects of entrepreneurial endeavors, that may guide us to make valuable improvements.

At times, such as in the recent efforts at deregulating transportation as well as privatization, these stories have been successful. Paraphrasing John Maynard Keynes, McCloskey notes that, at least occasionally, ideas do triumph over vested interests.

Not incidentally, McCloskey notes that the "story" of scarcity and the need for choice appeared first not in the writings of economists but in literature. In Daniel Defoe's novel, Robinson Crusoe is compelled to select the items he can transport ashore on his small raft. In modern economics classes, Crusoe's dilemma has been converted into the choice between "guns and butter."

But McCloskey warns that our choices are *individual*, not collective. American well-being, he notes, does not depend on crushing Japan. Just as it isn't of great importance to predict the future, so too, in McCloskey's view, "The idea is not to 'compete,' whatever that might mean in thrillingly collective policies, but to become skilled and hard-working and therefore rich."

All in all, one ends McCloskey's book by feeling that it is a tale well told. It deserves a wide audience. But please don't ask me to speculate on how wide that audience may be! □

Professor Shannon teaches in the Economics Department, Clemson University.

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—Leonard E. Read

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